

# The Management Accountant

Official Organ of the Institute of Cost and Works Accountants of India established in year 1944  
(Founder member of IFAC, SAFA and CAPA)

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### IDEALS THE INSTITUTE STANDS FOR

□ to develop the Cost and Management Accountancy profession □ to develop the body of members and properly equip them for functions □ to ensure sound professional ethics □ to keep abreast of new developments.

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**MISSION STATEMENT**

*“ICWAI 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.”*

**VISION STATEMENT**

*“ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally.”*

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The Institute reserves the right to refuse any matter of advertisement detrimental to the interest of the Institute. The decision of the Editor in this regard will be final.

*TCM is an effective application of professional and technical expertise to plan and control resources, cost, profitability and risk. A low cost high quality product has become an object of desire to gain competitive advantage. Hence, it is essential that cost management not merely addresses individual activities or the cost centres but the entire value chain.*

The world today is a 'global village' characterized by globalization of markets, liberalization, and cut throat competition which has made the present day business a highly complex one. Today's mantra is the 'survival of the fittest' which all the organizations, sooner or later, are realizing and are striving hard to get their acts together to explore avenues and new ways not only to survive in the market but also to retain / increase their market share and maintaining / improving their brand image. There has been a paradigm shift from 'sellers market' to 'buyers market' where today's buyers are not only 'omniscient' but also 'omnipotent'. 'Customer is the king' concept has become the order of the day and producers of goods and services across the globe are under an obligation to make available quality goods / services at right cost to the customers at the right time and at the same time maintaining their profit margin which would enable them to attain sustainability and financial endurance. In a market driven economy, the producers practically have no control on the price as the fixation of selling price is no longer a prerogative of the entrepreneurs.

In such a scenario, the need for judicious cost management is imperative on the part of the companies to help achieve the aforesaid objective of keeping cost to the bare minimum and at the same time delivering good quality products / services at an affordable price and also maintaining profitability. At this juncture, I feel appropriate to pen a few lines on 'cost management'. This term has no uniform definition but it can be used to describe the approaches and activities of managers to use resources to increase value to the customers and to achieve organizational goals. Cost management decisions relate to such decisions like the amounts and kinds of materials used, changes in plant processes and changes in product designs. Cost management is inextricably linked with revenue and profit planning and is not practiced in isolation. It is an integral part of general management strategies and their implementation. Instances include programs that enhance customer satisfaction and quality as well as research and development and marketing programs to promote "block buster" new products.

The expression 'Total Cost Management' (TCM) is of recent origin; thanks to the intense competition prevailing throughout the globe compelling business houses to have a relook at their cost management functions. TCM is the name given by AACE International to a process for applying the skills and knowledge of cost engineering. It is a systematic and structured approach to understand the costs of an organization, with the aim of providing a holistic framework to control, reduce and eliminate cost. TCM is an effective application of professional and technical expertise to plan and control resources, cost, profitability and risk. A low cost high quality product has become an object of desire to gain competitive advantage. Hence, it is essential that cost management not merely addresses individual activities or the cost centres but the entire value chain. A value chain is a chain of activities for a company operating within a specific industry. A product passes through all activities of the chain and at each activity gains some extra value. This means that there is a value addition to the product at each and every stage of activity or process through which it passes. This concept finds its applicability to project as well, turnkey projects in particular, where at each stage of the project, efforts are made to reduce / control / eliminate costs (avoidable) while minimizing risk (technological / financial etc) and maximizing profitability as well as competitive advantage. TCM maps the process upstream of project management. In TCM, what precedes project management is referred to as 'strategic asset management' or more traditionally 'portfolio and program management'. A unique element of the TCM process is that it integrates all the steps that an organization must take to deploy its business strategy. This includes monitoring and becoming aware of a performance issue with an asset in its asset portfolio (ie, capital base), to completing a project and delivering a modified or new asset to the company's portfolio. It also addresses managing multiple projects as a program or project portfolio.

TCM is based on the cardinal principle of 'cost prevention' as opposed to 'cost reporting' and the concept revolves around usage / implementation of important tools like Activity Based Costing (ABC), Just In Time (JIT), Target Costing and 'Kaizen' (continuous improvement). Each one of these work not in isolation but the combined use of these tools bring about TCM whose effectiveness depends to a great extent on how and to what extent these tools are used. Modern techniques like Balanced Score Card, Enterprise Resource Planning, Learning Curve Analysis, Supply Chain Management are found to be of much help in TCM. TCM has found its biggest audience in companies which involve huge capital outlay in fixed capital assets through construction projects (oil & gas, chemicals, pharmaceuticals etc). It is also finding wider use in IT, software, IT Enabled companies. It is hoped that the articles on the cover feature will aid in the understanding and assimilating the concept of TCM and the esteemed readers will find them quite useful.



B. M. Sharma, President

Dear professional colleagues,

After a hectic one year as the President of ICWAI, the time has come for me to leave. During my term of office, I hope that I have been able to make my views known on many issues. However, as it is the tradition, we all try to impart some last-minute wisdom to our colleagues, and I propose to do the same.

Let me begin by saying how privileged I feel to have had the opportunity to serve this institution. I wish to thank the Central Council of the Institute of Cost and Works Accountants of India for giving me the opportunity to serve in this position and especially Ministry of Corporate Affairs, Government of India for their encouragement and support to ICWAI and me during the past one year. I truly feel that the last twelve months as President of ICWAI have been fulfilling, and have given me the opportunity to contribute to the development of the profession of Cost and Management Accountants in India and make it an effective instrument in the process of nation building.

When I started my term as President, I was one of the youngest Central Council members, clearly fascinated by this prestigious assignment. Being a practicing cost accountant and a former Vice President of the Institute, I found my involvement in issues with a national impact a most stimulating experience. I certainly changed a lot in the process. And I am very pleased to say that the ICWAI also changed dramatically. Without a doubt, with the recent changes in economic and regulatory environment combined with the recognition by the Government of India, the profession has metamorphosed into a powerful career option for young individuals today.

As this is my last message as President of the Institute, I take this opportunity to quote a shloka from Brihadaranyakopanish at 4.4.5 as follows :

काममय एवायं पुरुष इति । स यथाकामो भवति तत्कृतुर्भवति ।

यत्कृतुर्भवति तत्कर्म कुरुते । यत्कर्म कुरुते तदभिसंपद्यते ॥

*(You are what your deep, driving desire is As your desire is, so is your will. As your will is, so is your deed As your deed is, so is your destiny.)*

I have always felt that to succeed, we need to begin with strong inner conviction in our beliefs and ideals combined with superior wisdom and intellect. Cost and Management Accountants are endowed with intellectual skills to man the highest positions and the recent events have provided the necessary momentum to support this belief. You may be aware of the increased role CMAs have been bestowed with in the Indian Business Environment. The new business environment has already given boost to India's Corporate Sector which has the potential and capacity of reaching newer zeniths of professionalism and overall growth. The Institute today is recognised as a body of professional accountants who care and continuously search for the pearls of wisdom to apply to the everyday business. Moving away from Creative Accounting, CMAs are known for Cleanly Maintained Accounts. Even International forums and professional bodies are recognizing the value addition CMAs can make to the corporate sector around the world.

To prove my point of view, I am happy to provide point wise status of each of the items listed on priority since I assumed the charge of President of ICWAI on 22<sup>nd</sup> July, 2010 :

Item	Status
Cost and Works Accountants (Amendment) Bill, 2010 dealing with enabling provision for LLP and Name Change of the Institute]	Parliamentary Standing Committee submitted its report on the Bill. ICWAI has made representations to appropriate authorities and concerned officials on the issue. I am sure Ministry of Corporate Affairs (MCA) shall resolve the issue in favour of ICWAI.
Wider role for members of the Institute under the Companies Bill, 2009	Even before the passage of new the Companies Bill 2009, the profession has been put on a much higher pedestal where members of the ICWAI would be required to play very significant role in the governance of the Indian Corporates as a result of the restructured cost accounting records rules and the revised cost audit report rules structure. Other issues concerning the profession have also been addressed by us and are under consideration.
Implementation of Expert Group recommendations	The Ministry of Corporate Affairs has recognized the utility and efficacy of the recommendations of the Expert Group and the recent notifications bear testimony towards this.
Greater role for CMAs in upcoming GST and DTC	Bills are under discussion and I am confident that CMAs will get their due role in the future.
Formalising the remaining Cost Accounting Standards and alignment of the first 5 standards with the revised structure.	Till date 13 Cost Accounting Standards have been issued by ICWAI which have now been recognized for application with the issue of Companies (Cost Accounting Records) Rules 2011 and Companies (Cost Audit Report) Rules 2011. Revision of the first 5 CASs are also under progress.

Issue	Position
Issuance of Guidance notes on Cost Accounting Standards	Cost Accounting Standards Board (CASB) of ICWAI is working overtime to issue Guidance Notes on the cost accounting standards as well as Generally Accepted Cost Accounting Principles.
Research based topics in Management Accountancy	ICWAI issued various research based publications during National Cost Convention, viz., revised editions of Guidance Notes on CENVAT Audit, Valuation Audit, Value Added Tax - its Accounting & Auditing, Risk Based Internal Audit & Concurrent Audit of Commercial Banks, Members' Handbook 3 Volumes (for members in Practice and Employment), Work Books for students on "Cost and Management Accounting" and "Financial Accounting" and Compendium on - Management Accounting - Enterprise Performance Management.
Role of members of ICWAI in LLP.	MCA has accepted our contention and paved the way for implementation of LLPs of the Cost Accountants.
Newly designed courses on Valuations, IFRSs, etc.	Institute has launched courses on IFRS into both the formats - On-line and Offline. In the online course, Institute has introduced the training programme to provide learning at the pace and comfort level of participants. The CEP Directorate of the Institute has also started classroom certificate course at different centres. having short term interaction with faculty also. The structure of the courses on Valuation and Foreign Exchange Risk Management have been designed and will be launched soon.
Representation to the Government for enhanced role for our members.	Continuous follow up with the Government has yielded various outcomes prescribing new role for our members.
Strategic tie ups with more International Institutions for mutual benefit	Institute has entered into MoU with Institute of Professional Accountants (IPA), Russia; Institute of Public Accountants (IPA), Australia and ICMASL, Sri Lanka. These MoUs as well as our earlier MoUs with CIMA, UK and IMA-USA has proved very fruitful for our members.

In addition to the above, my focus was on some of the other important activities for the growth of the Institute. I am pleased to intimate the progress made on the various issues by quoting the following line :

उद्यमेन हि सिध्यति कार्याणि न मनोरथैः । न हि सुप्तस्य सिंहस्य प्रविशन्ति मुखे मृगाः ॥

*(Work gets completed by efforts, not by thinking only. Deer do not enter into the mouth of sleeping lion. He has to actively hunt them.)*

Issue	Position
Provision of prompt and timely service to members and students	Various initiatives have been started with the use of IT to link students' requirements and to meet members' expectations.
Bringing Head Quarter, Regional Councils and Chapters on a common IT platform to achieve inter connectivity	The linking up process is nearing completion and will be put into effect before the end of the tenure of this Council.
Greater efforts for placement of our members	More than 1000 (Maximum number of students) of our newly qualified students were placed during the year in 50 leading corporates throughout the Country through Campus Interviews.
To facilitate Council working with better coordination among various Committees and Boards of the Institute	Achieved with the cooperation of the members of the Central Council of ICWAI.
Making practice as a Cost and Management Accountant a sought after option.	With the notifications issued by MCA during April, May and June, 2011 the profession of practice as a Cost Accountants has become a sought after option and large number of members are joining the profession.
Updating the knowledge of members by organising more and varied workshops and seminars	A number of workshops were organised throughout the year.
Provide a unified structure in the working of the Institute	New Chapter Bye-Laws have been implemented. Amendments to the CWA Regulations have been completed in line with the CWA Amendment Act. Unified financial discipline across regional Councils and Chapters in line with the Head Quarters has also been introduced.
Increasing the visibility of the Institute in International Forum	Mr. A. N. Raman took over as President, SAFA. Our role in IFAC-PAIB is being appreciated by the global body.
ICON of the Year Awards	The Institute initiated steps to Honour members of the profession who have attained global recognition in their respective fields and were awarded "ICON of the Year Award".
Participation in the initiatives of Ministry of Corporate Affairs towards Investor Education, Corporate Week, etc.	Record number of programmes were organised for the Investor Awareness, India Corporate Week by the Institute across the country.
Augmenting Financial resources of the Institute	One of the highest surplus of around Rs. 25 Crores has been reported this year.

#### Activities during the month

##### Meeting with HE Ms. Pratibha Devi Singh Patil, Hon'ble President of India

Friends, I am extremely happy to share with you that Mr. M. Gopalakrishnan, Vice President of the Institute and I called on Her Excellency Ms. Pratibha Devi Singh Patil, Hon'ble President of India on 27<sup>th</sup> June, 2011. We apprised her of the contribution our Institute is making to the Indian growth story and other issues related to the profession. I thank Mr. S J Deore, Secretary of Aurangabad Chapter of ICWAI for his untiring efforts in arranging our meeting with HE President of India.

### Meeting with Secretary, Ministry of Corporate Affairs

We have been meeting Shri D K Mittal, IAS, Hon'ble Secretary to the Government of India, Ministry of Corporate Affairs regularly and keeping him updated on the various developmental activities being undertaken by the Institute.

### Professional Development Directorate

In my last month's communiqué, I informed our members a very significant development regarding the profession i.e. issuance of Notifications by the Central Government on common Companies (Cost Accounting Records) Rules 2011 vide notification number G.S.R. 429 (E) dated 3rd June 2011 and revised Companies (Cost Audit Report) Rules 2011 vide notification number G.S.R. 430 (E) dated 3rd June 2011. The revised structure of the cost audit report and common cost accounting records rules as notified by Central Government were based on recommendations of the Expert Group.

The Cost Audit Branch of MCA is also leading from the front and working overtime to provide succor to common man of the country. In a series of orders, it has changed the whole canvas for the members of the Institute to operate. In continuation of the orders issued recently, by order dated 30<sup>th</sup> June, 2011, Central Government has ordered Cost Audit for companies engaged in production/activity of 8 industries of national importance like Cement, Tyres and Tubes, Steel, Paper, Insecticides, Glass, Paints and Varnishes and Aluminum. The orders have been issued on all companies engaged in any of the products listed above having turnover of Rs. 100 crores or more which is a distinct departure from the earlier practice of ordering cost audit on selected companies only

Cost Audit Branch of MCA is also in the process of revising the Cost Accounting Records Rules for various regulated Industries namely Pharmaceuticals, Fertilizers, Sugar, Industrial Alcohol, Electricity, Petroleum and Telecommunications and has asked for comments from stakeholders. I urge all concerned to give befitting comments on the draft rules quickly for early finalisation.

The above Rules have introduced the concept of "Product Group". The revised Cost Accounting Records Rules as well as the Cost Audit Report Rules has mandated reporting according to the Product Group concept. While a definition of "product group" has been given in both the Rules, the application of this new concept across companies and industries requires further clarification to enable the concept to be used uniformly across industries. The Institute is bringing out a detailed guidance note in consultation with Industry Associations and Chambers of Commerce to help the companies and our professional members to smoothly implement the proposed framework.

The Institute has also hosted FAQs on the notification in the website of the Institute, for the guidance of members and industry. The Professional Development Committee has also been organizing interactive session at different cities to apprise the members of the details of the notifications.

### Advance Studies Directorate

The Directorate has finalized and has initiated the process of launch of two post qualification courses on Business Valuation Management and Foreign Exchange Risk Management. These two programmes shall be offered in association with two different national level institutions and would be open to members of the institute and other stakeholders. The Directorate is also supporting the efforts of the Ministry of Corporate Affairs towards investor awareness and investor protection. Director-Advance Studies attended a series of meetings conducted at the Ministry on behalf of ICWAI under the aegis of IEPF. The Directorate has also initiated action with Confederation of Indian Industries for supporting activities of National Foundation for Corporate Governance.

### Vision 2030 of ICWAI

As desired by Ministry of Corporate Affairs the ICWAI have initiated

steps to prepare Action Plan 2011-13 and Vision 2030 of ICWAI under the guidance of a renowned Management Consultant of India.

### CEP Directorate

CEP Directorate has been organizing various programmes across the country.

I attended a programme organised by ICWAI in collaboration with Standing Conference of Public Enterprises on 'Understanding Revised Schedule VI - Presentation and Disclosures' at SCOPE Convention Centre, New Delhi during 23-24 June, 2011. The inauguration session of the same was attended by Mr. Arup Roy Choudhury, Chairman, SCOPE and CMD NTPC, Dr. UD Choubey, Director General, SCOPE, Shri R Bandyopadhyay, IAS (Retd), Chairman, Quality Review Board, ICAI and Former Secretary, Ministry of Corporate Affairs and by Dr. TP Ghosh, Professor, Institute of Management Technology, Dubai and the speaker of the course.

### Membership Directorate

The Membership Directorate has initiated steps to update Members' Register to ensure that Compliance Certificate as envisaged under the Companies (Cost Accounting Records) Rules 2011 is allowed to be authenticated by eligible members only.

### IT Department

Certain initiatives in the IT Department undertaken during the year will be having favourable impact on members, students and other stakeholders.

**1. Integration of Members Database with MCA :** An application service has been developed and deployed to integrate the Members Database of ICWAI with the MCA-21. With the help of this service the validation of the practicing members of ICWAI filing online returns on MCA website is done instantaneously.

**2. Upgradation of IEPS :** The IT Task Force of the Institute recommended the upgradation of online student registration system (IEPS) being used by Regional Councils and Chapters. The system has been upgraded and is currently being tested with live data.

**3. Re-designing of website :** The website of the Institute has been re-structured and re-designed to create easy to navigate and searchable website. The information architecture on the website has been re-structured to provide separate portals for

- Students (<http://students.icwai.org>)
- Training & Placement (<http://students.icwai.org/tnp>)
- Exam (<http://exam.icwai.org>)
- Members (<http://members.icwai.org>)
- CAT (<http://cat.icwai.org>)
- MDP (<http://mdp.icwai.org>)

Under each of the above sections, the information has been classified and made available under appropriate menus/links. **The new website is to likely be launched on July 18, 2011.**

**4. Online facilities for Members :** The following online facilities for members have been created :

- A Members Login section has been created, where a members can login with a user id and password to access his personal details.
  - An Online payment system integrated with HDFC payment gateway has been developed that allows members to make online payment to the Institute.
  - An online system for the practicing members to register as CFC under ACES scheme of CBEC as well as under MCA-21. The application also allows members to check the status of their application.
5. Online facilities for students: The following online facilities for students have been created :

- i. Facility for online submission of Examination form for CAT and ICWAI Students
- ii. Facility to check Denovo Status online
- iii. Facility to check Revalidation Status online

#### 6. XBRL Training Programme for the Practicing Members of the Institute :

One day workshop on XBRL was organised for the practicing members of the Institute on April 28, 2011 at New Delhi. This workshop was organised with the help of technical resources from Iris Business Services Ltd. The participants were taught the fundamentals of XBRL and were given practical demonstration of XBRL applications.

#### 7. IT Infrastructure :

- a. Upgraded the leased line bandwidth to 1 MBPS
- b. Creation of wi-fi zone on the 3<sup>rd</sup> floor of the Delhi Office of the Institute

#### Health Check Up Insurance Policy for the members of the Institute

The speed of recent happenings would require our members to be in good shape in body and mind. I am pleased to share with you that the Institute has entered into an MOU with Religare SRL Laboratory towards a Comprehensive Health Check Up Plan for our Members, students, employees and their families at a special discounted rate of 50% on all Wellness Packages and 20% on all Pathological Tests. This has been negotiated with SRL Religare Lab and members, students and employees can avail of the benefits on the strength of their identity cards issued by the Institute. Details of the scheme would be available on our website shortly.

#### 8<sup>th</sup> ICWAI Awards for Excellence in Cost Management 2010

The function for 8<sup>th</sup> ICWAI Awards for Excellence in Cost Management 2010 is scheduled to be held on 18<sup>th</sup> July, 2011 at Vigyan Bhawan, New Delhi to honour the award winning companies. This function is going to be preceded by a Seminar on "Recent Orders by Cost Audit Branch on Cost Accounting and Audit". I invite all of you to be part of the celebrations showcasing our profession.

#### New Infrastructure of Institute and its Chapters

##### (1) Hyderabad Center of Excellence

Hyderabad Center for Excellence building is coming up very well and will be a State of Art Facility for conducting training programs, mini conferences, to form Special Interest Groups to bring out publications related to various important sectors of Indian Economy.

##### (2) NAVI Mumbai Center of Excellence

Necessary approvals are being obtained to start construction of building of Navi Mumbai Centre of Excellence.

##### (3) Jodhpur Chapter

To meet the aspirations of students and members in Jodhpur, new office building of Jodhpur Chapter has been acquired with contribution from Headquarters also.

##### (4) Ahmedabad Chapter

Ahmedabad Chapter has acquired new premises with a contribution of Rs. 1.10 Crore from ICWAI Headquarters. I wish to place on record my appreciation of the personal financial contribution of Rs. 25 lacs by Dr. S S Shah, Chairman of the Chapter for the benefit of members and students.

#### Inauguration of new Chapters/international Centres

In addition to above, two new chapters namely Hazaribagh, Pimpri-Chinchwad-Akurdi and International Centre at Toronto, Canada have started functioning during this year.

#### New Council of the Institute

You may recall elections to the new Central and Regional Councils of the Institute were held on 3<sup>rd</sup> June, 2011. Results to these elections were announced on 13<sup>th</sup> June, 2011. While the tenure of this present Council comes to an end, I look back at the speed with which a memorable and eventful 4 years has gone by starting with organization of first ever Global

Summit of Management Accountants, constitution of Expert Group and its recommendations, signing of various international MoUs, presentation on Companies Bill 2009 and CWA Act Amendment Bill etc. The time has come for me to welcome the new President and his team eager to take over the reins with enthusiasm to work for the profession. The current year has been a year of hard work, privilege and a humbling experience made possible because of the love and affection of all the members, the faith, support and constructive suggestions from all my Council members and staff and executives of the Institute.

To brief the newly elected members on the important initiatives undertaken by outgoing Central Council, a joint meeting of the outgoing Council and the newly elected members was organized at Delhi Office of the Institute on 25<sup>th</sup> June, 2011. I am sure the momentum created by outgoing Council shall be carried forward by the new Council. I would like to cite a Sanskrit Shloka while extending my unflinching support to the new Council for the growth of our glorious profession :

आरभ्यते न खलु विघ्नभयेन नीचैः प्रारभ्य विघ्नविहता विरमति मध्याः

विघ्नैः पुनः पुनरपि प्रतिहन्यमानाः प्रारभ्य चोत्तमजनाः न परित्यजंति

(Those who do not start the work (at all) fearing the obstacles are (called) men of low caliber; those who start the work but stop on encountering obstacles are (called) men of medium caliber; those who even after being destroyed again & again by obstacles do not leave the work once started are (called) men of high caliber.)

Last but not the least, I am grateful in particular to the Regional Councils and Chapters of the Institute, and in particular Chapters at Aurangabad, Nagpur, Bhopal, Surat South Gujrat, Navi Mumbai, Pimpri-Chinchwad-Akurdi, Jabalpur, Kalyan Ambernath, Nashik, Baroda, Bangalore, Hyderabad, Manglore, Cochin, Madurai, Durgapur, Ranchi, Bhubaneswar, Asansol, Hazaribaug, Jaipur, Lucknow and large number of individual members who came forward to mobilize support across the country for the cause of the profession. I wish to place on record my sincere appreciation and heartfelt gratitude for the support and affection given to me by my colleagues in the Central Council, Chairmen of various Committees of the Institute, Past Presidents of the Institute, Management Committees of Regional Councils and Chapters, all the employees of the Institute in various directorates during my stint as the President of the Institute. I would be failing in my duty if I do not place on record my sincere thanks to M/s Sankar Panicker, Sunil Chacko, G. R. Paliwal, P. V. Wandrekar, Manubhai Desai, Rajendra Rathi, Santosh Mundada, Ramanand Modani, Arvind Paranjape, Sudhir Jog, Sudhir Sant and L. D. Pawar and many other members and well wishers.

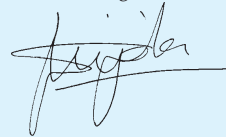
This underscores again the fact that as a team we can weather many storms and succeed in whatever missions we launch. It has been an honour to offer my services to this great Institute and I shall continue to do so throughout my life. In true sense, I am humbled by the Gita Shloka and say goodbye to all

कर्मण्ये वाधिकारस्ते म फलेषु कदाचन

कर्मफलेहतुर धुरमा ते संगोस्त्वकर्मांनी ।।

(You have a right to perform your prescribed duty, but you are not entitled to the fruits of action! Never consider yourself the cause of the results of your activities, and never be attached to not doing your duty.)

With best regards to all of you,



(Brijmohan Sharma)

President,

6<sup>th</sup> July, 2011

# Total Cost Management

Sekhar Ranjan Guha\*

The present-day business environment is significantly different from that of the yesteryears by its rapid pace of change. Such change is driven by many factors, such as :

- globalization of markets, involving a changeover in market focus from competition among indigenous suppliers to competition among international suppliers;
- deregulation, facilitating entry of multinational companies;
- spectacular advances in information technology, facilitating availability of real-time data and vital information to the managers that help to improve all-round efficiency;
- a quantum change in manufacturing technology, producers need to match or exceed global standards of quality, cost, and service; manufacturing tend to be technology-driven and customer-oriented;
- growth in service industry;
- increasing emphasis on total quality management;
- vastly developed transportation and communication systems leading many manufacturing and service industries to global markets where multinational companies are present offering products of higher quality at lesser costs, companies and consumers now know that alternative choices are available for the sale and purchase of products and services;
- heightened awareness of ethical and environment-friendly business practices;
- time as a competitive model, products and services need to be delivered very fast.

Equally, another important and significant change is redirection of focus from short-run profits to long run success in the market. Emphasis on providing value to customers has sharply increased. A company can survive in the new environment by providing more value to the customers at a cost lesser than its competitors. In the global environment of constant change and uncertainty, the company has to be the highest value supplier in its market place.

The way the business is now conducted is continuously developing and evolving. Periodically new markets emerge; customers' satisfaction standards increase; varying management styles and

organizational structures are introduced. 'More and more frequently, changes in business practices are being driven by the demand for quality, the need for reduced cycle time, and the increased abilities provided by technology. All of these factors affect an organization's potential for long term market success and its need to introduce strategically based cost management practices' ('Management Accounting' by C. A. Raiborn, J. T. Barfield, and M. R. Kinney, West Publishing Company, Minneapolis, USA).

In order to survive in the new business scenario, producers of goods and services have to offer maximum value to the customers at minimum possible price and still have to maintain both quality and profitability. The producers have some control on the cost, but they hardly have any control on price due to intensity of competition in the market place.

In the changed scenario business managers have turned towards cost management to find ways and means to continuously reduce costs, to improve product/service quality, and, at the same time, maintain profitability. Total Cost Management (TCM) rose to this call.

In simple words, total cost management is a planned and structured process to manage cost throughout the life cycle of an organization, project, product or service. It is a very 'effective application of professional and technical expertise to plan and control resources, costs, profitability, and risks' (John K. Hollman, AACEI). Here 'total' refers to TCM's company-wide systematic approach that provides a comprehensive framework to control, reduce, and eliminate costs throughout the entire value chain. It is an integrated system that involves both strategic and operational spheres and that permeates throughout the organization—both horizontally and vertically. This process of managing the financial results of business activities covers all internal as well as external operations. It is a strategic business idea which intends to establish long-term cost reduction by taking into account an organisation's cost structure and by linking competitive strategy, technological decisions, personnel planning, and investment management.

TCM aims at addressing particularly the following issues :

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\* FICWA, Dip. MA



- identification of the profitable customer segments,
- ascertaining product costs and their profitability,
- accuracy of the sourcing decisions,
- whether costs increase in spite of cost cutting efforts,
- whether product/service prices can be reduced and still enhance customer value.

### **Core Principles Underlying Total Cost Management Business Process Analysis**

Total cost management system is founded on the notion that in-depth analysis and understanding of business processes (process represents collections of logically related activities to achieve definite results and goals), and continuous improvement of such processes are the driving forces behind efficient management of costs. A business can be viewed as an aggregate of interrelated processes. It is, therefore, necessary that business managers need to develop a process orientation in their management philosophy. This is important for particularly two reasons :

- it is the foundation for achieving business process improvement plans or cost reduction programmes, and
- it is the foundation for introducing activity-based costing systems and continuous improvement programmes.

It is possible to determine key characteristics of each process by making the business processes the goal of long-term and continuous improvement programmes.

These features can be known by studying the workflow needed to complete the process, bottlenecks (if any), unpredictability of output quality at any process stage, any activities in the process non-relevant from the customers' viewpoint, time required to complete the process, total cost of the process, rationale of each activity within the process, etc.

After knowing these characteristics it is possible to target a process for improvement. The basis for selecting targets for improvement may depend on the business objectives, such as : reduction of cost, quality improvement, reducing cycle time (the time between receiving an order from a customer to the time the product/service delivered to him/her), etc. Singly or collectively all these objectives can be accomplished by the same analytical approaches to processes.

The business process analysis can be the first step to improve a management accounting system to get more accurate product cost or customer cost. Such

analysis is essential to use technique for improving performance measurement system and decision support system within an enterprise.

### **Managing Costs by Regulating the Activities that Consume the Costs**

Managers cannot manage the costs directly. However, they can change the activities within the process/processes or can take action to reduce the demand for those activities. In this manner the managers can effectively and sustainably influence costs.

#### **Driver Analysis**

It is necessary to know the factors that cause activities to be performed and also to know what causes activity costs to change. Activities consume resources and produce outputs. The objective of 'driver analysis' is to locate the real factors that are the root cause or causes of activity costs. If the root cause or causes can be known, steps can be taken to improve the activity. For example, an analysis may disclose that the root cause of treating and disposing of poisonous waste is inherent in the design of a product. Creating a new product design may eliminate or decrease the cost of treating and disposing of such waste.

#### **Activity Analysis**

'Activity analysis' helps to know what activities are performed, the number of persons who perform the activities, the time and resources required to perform the activities, and an assessment of the value of the activities to a firm. This analysis helps to identify the value-added content of activities which help the managers to eliminate waste; needless to say, cost reduction follows the elimination of waste.

#### **Activity-based Costing (ABC)**

Activity-based costing system helps to identify the different activities performed in an organization and collects costs on the basis of the underlying nature and extent of those activities. This sophisticated system generates accurate information/ data that can be utilized to make the best or most effective use of product, service, and customer-mix, build model of alternative strategies, evaluate technologies, and directly focus on cost saving efforts on the products/ services and the processes with the most leverage for enhancing profit. ABC system encourages reductions in throughput (the rate at which a business generates money through sales) time, optimization of inventory, and quality improvement.

#### **Activity-based Management (ABM)**

'Activity-based Management' is now considered as the heart and soul of a contemporary operational

control system. It is 'a systemwide, integrated approach that focuses management's attention on activities with the objectives of improving customer value and the profit achieved by providing this value', ('Cost Management : Accounting and Control' by D. R. Hansen and M. M. Mowen, publisher Thomson, South-Western, Ohio, USA). ABC is the most important source of information for ABM. ABM includes driver analysis, activity analysis, and performance evaluation. It helps the managers to understand the root causes of the costs, which, in turn, enables them to improve performance more efficiently by continuously improving performances. In real terms this means that companies can make products or perform services more efficiently, compute costs more accurately, and control and evaluate operations more effectively. ABM views organizational processes as value-added and non-value-added activities. Progressive management should strive to minimize or eliminate non-value-added activities as they cause unnecessary costs and longer cycle times without providing any additional value for the customers.

#### Directed Continuous Improvement

In a fast changing and hypercompetitive business environment, companies must continually improve their performance to remain competitive or to establish competitive advantage. Continuous improvement has been defined as 'the relentless pursuit of improvement in the delivery of value to customers' ('Accounting for Continuous Improvement' by P.B.B. Turney and B. Anderson, Sloan Management Review, Winter 1989). The stringent competitive business environment demands that companies offer customized products/services to diverse customer segments. This, in turn, means that companies must find cost efficient ways of producing high-variety, low-volume products. In practical terms, this means searching for ways to increase overall efficiency by eliminating waste, improving quality, and reducing costs. 'Cost management supports continuous improvement by providing information that helps identify ways to improve and then reports on the progress of the methods that have been implemented. It also plays a critical role by developing a control system that locks in and maintains any improvements realized' ('Cost Management : Accounting and Control' by D. R. Hansen and M. M. Mowen, publisher Thompson, South-Western, Ohio, USA).

In continuous improvement emphasis is on refining processes and eliminating things that do not improve the product's characteristic quality. Target

for continuous improvement covers almost all aspects of an enterprise, such as :

- the quality of the products and services,
- the responsiveness to customers,
- the ability to know customer needs,
- the time required to get new products or services to market,
- the financial health of the business,
- the quality of the worklife,
- the ability to leverage assets ( 'leverage' indicates the relationship between equity and long-term debt; it describes the capacity to use fixed cost assets/funds to significantly enhance the return to the owners of a business).

It is very clear that a dynamic environment needs continuous improvement. However, continuous improvement activities need to connect with the company's overall mission and strategy and identify the objectives, performance measures, and initiatives necessary to achieve this overall mission and strategy.

#### Important Tools of Total Cost Management Value Chain Analysis

Selection of the most advantageous strategic position in the market requires business managers to understand the activities that contribute to its success. In real terms this means understanding of the 'industrial value chain', that is, the linked set of value-creating activities from basic raw materials to the disposal of the finished product by end-use customers. Such linkages are of two types : internal and external. Internal linkages represent relationships among activities that are performed within a company's part of the value chain. External linkages indicate the relationship of the company's value chain activities that are performed with its suppliers and customers. Making utmost utilization of internal linkages means that relationships between activities are examined and used to cut down costs and increase value to the customer. For example, product design and development activities are linked to production activities. If design engineers know that the number of parts is a cost driver for different production activities, then effort can be made to redesign the product so that it has fewer parts and, consequently, cost of production would be reduced.

Linkages with activities external to the firm can also be utilized to a great extent. Suppliers provide inputs and can significantly influence a user's strategic positioning. Suppliers (and distribution channels) have profit margins that are important factors to identify in undertaking a company's cost or differentiation positioning, as ultimately end-use customers pay for all the profit margins throughout the value-chain.

A company's costs are compared activity by activity against costs of key competitors, this analysis identifies which internal activities are sources of cost advantage or disadvantage.

### Supply Chain Management (SCM)

By whatever name we may call, distribution, or logistics, or supply-chain management, it is the process by which companies move materials, parts, and products to customers. Of late, it has become very strategic. From a company's point of view, supply chain management stands for the design and operation of the physical, managerial, informational and financial systems needed to transfer goods and services from supplier to customer in an effective and efficient manner (Ref. 'Towards Single-Piece Flows' by Prof. G. Raghuram, Business Today, January 2000). By splitting the activities involved in supply chain and outsourcing several internal processes, a company can identify the best performer for each important activity in its business. Inefficiencies in the supply chain ultimately lead to higher inventories at all points. This increases costs linked to blocked funds and space, and the risk of holding obsolete items.

An efficient supply chain can ensure providing better and cheaper products to customers. To achieve defect-free production, a company is heavily dependent on its suppliers' ability to supply defect-free materials. It is best to buy from suppliers who offer the most appropriate quality at the best overall price and deliver in the most reliable manner. SCM develops mutually beneficial long-term relationships between suppliers and buyers. As trust develops between them, decisions about how to settle cost reduction problems can be made with shared information about each other's operations and processes. Sometimes the producer provides technical training to the supplier's employees. 'Electronic data interchange' (EDI) is an integral part of SCM. The emergence of EDI and SCM has increased the importance of costing out activities in the value chain and determining the cost to the company of different suppliers and customers (Ref. 'Cost Management : Accounting and Control' by D. R. Hansen and M. M. Mowen).

### Life Cycle Cost Management

'Life cycle cost management' is an approach that provides a framework which facilitates management's ability for managing costs and performance of a product over its entire life cycle from inception to the abandonment. It commences with the initial identification of consumer need and extends through planning, research, design, development, production, evaluation, marketing, logistics, service, and

discontinuation of production. All costs associated with the product for its entire life cycle are termed 'life cycle costs'.

Knowledge of the product life cycle is important for cost management. Manufacturers should be fully aware of the impact of newness on costs. At the introduction stage of a new product, there are learning effects. With continuation of production for some length of time, production process becomes more efficient. Unit-level costs are highest in the introductory phase as new materials are procured in smaller quantities. However, such costs begin to fall in the growth phase as learning takes effect, labour efficiency increases, and, on account of higher volume of production, the producer may avail of discount on purchase of materials. In the decline phase, such discounts may not be available due to lower volume of purchase. Thus, it can be seen that product-related costs occur unevenly over the product's lifetime.

Life cycle cost management facilitates cost reduction. Actions taken before and in the early stage of production life cycle can help to lower costs for later production and marketing stages. Accordingly, activities at the beginning of the life cycle of a product must be managed on a permanent basis in the light of a global view of the life cycle. Consideration of costs other than production and distribution costs during pre-introduction stage ensures that the difference between the product's revenues and its manufacturing and distribution costs cover all other costs related to developing, supporting, and abandoning the product. Identifying the magnitude and nature of these costs help management to systematically evaluate and manage them. Such understanding also helps planners to develop reasonable estimates of the costs likely to be associated with new products.

### Target Costing

'Target costing' has become a key factor in achieving competitive advantage. If a new product is priced on the basis of its costs, the resulting selling price may not be acceptable to the market. Some manufacturers prefer to employ the technique known as 'target costing' before a product is designed, developed, or introduced.

A company first uses market research to estimate what the market will pay for a product with specific features. Then, the company determines the 'allowable' product cost by deducting an acceptable profit margin rate from the selling price which may be accepted in the market. The resulting difference is the 'target cost'.

By designing a product to ensure a specific cost, a company needs to eliminate all non-value-added

activities (and, therefore, costs) from the production process. Suppliers may be involved in designing stage as they can provide valuable input into the process of reaching the target cost.

Three cost reduction methods are typically employed :

- reverse engineering, in which competitors' products are minutely analysed to find out more design features that may lead to cost reduction,
- value analysis, in which value placed on various product functions by customers is assessed, (if the price customers agree to pay for a specific function is less than its cost, then that function can be eliminated),
- process improvement, in which processes are redesigned to improve their efficiency which can lead to required cost reductions.

It is easier to design product costs before production than control such costs during the production phase. Design and planning decisions have a more profound influence on the future performance of a company than on its current performance.

Target costing can be effectively used in unison with marketing decisions to adopt the technique of 'price skimming' (to charge a higher price at the time of introducing a product or service for the first time) or 'penetration pricing' (pricing a new product at a low initial price to build a market share quickly).

### Just-in-Time

'Just-in-time' is an approach about engaging in purchasing, producing, and delivery activity only when such activity is needed. Companies that implement JIT actively pursue a cost reduction strategy by reinventing the structural and procedural activities performed within the company.

The most important elements of JIT are :

- elimination/reduction of inventory, to the extent possible,
- saving storage space (resulting from elimination/reduction of inventory),
- selection of quality suppliers, entering into long-term contracts with them, to reduce uncertainties of supply,
- shortening of lead times by use of frequent deliveries,
- continuing endeavour to maintain high quality of product, avoidance of generation of defectives and wastes,
- utilization of employees' experience, practical knowledge, and suggestions in improving

operations, giving training to them to enhance their skills and productivity,

- use of creative thinking to find ways and means to reduce costs before making expenditures for additional resources.

In JIT manufacturing, a product is produced only when the same is needed and only in quantities needed by customers. Materials and components arrive just in time to be used in production. 'JIT assumes that all costs other than direct materials are driven by time and space drivers. JIT then focuses on eliminating waste by compressing time and space' ('Cost Management : Accounting and Control' by D. R. Hansen and M. M. Mowen ).

Retailers use a new method, 'continuous replenishment', to save ordering costs. Here a manufacturer assumes the inventory management function of a retailer. The former tells the latter when and how much stock to reorder. The process of continuous replenishment is made simpler by 'Electronic Data Interchange' that allows suppliers access to a buyer's on-line database. Knowledge of the buyer's (i.e. the manufacturer's) production schedule, the supplier can deliver required materials just in time when the same would be used by the manufacturer.

JIT reduces working capital requirements, saves carrying costs, frees up space which can be used up for more productive purposes, decreases throughput time, and eliminates wastage.

### Quality Cost Management

Competitive forces are inducing firms to pay increasing attention to quality. Customers are demanding higher quality products and services, they believe that buying a quality product will save them money in the long run. Improvement in quality increases customer satisfaction, which, in turn, increases market share; increases in market share increases revenue and profitability. The overall effect enhances a company's financial and competitive position.

The objective of 'quality cost management' is to find ways and means to minimize total quality cost. Quality costs are the costs that are incurred to ensure that products are produced to meet the required specifications. Such costs are of four types :

- **prevention costs** : incurred to prevent production of poor quality products;
- **appraisal costs** : incurred to determine whether products conform to the customers' needs,
- **internal failure costs** : incurred if products do

not conform to the customers' needs before delivery,

- **external failure costs** : incurred if products fail to conform to customers' needs after delivery.

There has been considerable research in the world on the subject of Total Quality Management. Researchers are finding out more and more improved techniques to enhance the product quality and to reduce quality costs. Companies are utilizing the new discoveries to survive in the hypercompetitive global market. Managers evaluate the cost-benefit relationships among expenditures in this arena and determine measures of effectiveness and efficiency. Quality is now a major competitive dimension for world-class competitors.

### Cost Measurement

Cost measurement is extremely vital to manage costs. Management accountants use 'benchmarking' techniques and develop 'key performance indicators' for the company for measuring performance. For control of total cost, an information system is developed which includes, apart from financial reports, statistics on timely deliveries, product quality, customer satisfaction, employees' morale, and new product development.

Cost measurement helps the business managers to have a better understanding of application of resources in the company's activities and behaviour of products and processes. Total cost management tools can be used to achieve the objective of cost

management through accurate cost measurement and have identified and eliminated activities of duplicative nature and also non-value-added activities.

### Strategic Total Cost Management

'Strategic total cost management' provides the company management with better opportunities for creating and sustaining long-term competitive advantage. It is 'a long-term approach that integrates competitive strategy, technological strategies, human resource management strategies, and organizational design considerations to provide a focused and coordinated basis for sustaining competitive advantage' ('Effective Long-Term Cost Reduction: A Strategic Perspective' by Michael D. Shields and S. Mark Young).

To achieve long-term competitive cost advantage, an effective system of continuous improvement of quality, time, and cost through technological innovation needs to be installed. The immediate good results from TCM emerge in the form of cost reductions through best possible management of activities. TCM greatly facilitates increasing the value received by customers (without paying more) and profits earned by a company by improving strategic position (by deploying resources to activities that lead to maximum strategic benefits and redeploying unused resources) and improving strategic capability (by directing management attention to opportunities for improving the performance of the key activities and their cost drivers in the company's value chain). □

## At the Helm



Our hearty congratulations to Shri Nitin V. Kotak, a fellow member of the Institute, for taking charge as Vice President and Chief Financial Officer of Howard Hughes Medical Institute, (HHMI) a non-profit medical research organization ranking one of the largest philanthropies in the United States and the 4th largest in the world. Shri Kotak is based at Chevy Chase, Maryland, USA. HHMI's medical investigators currently include 13 Nobel laureates who work on advancing biomedical research and science education in the United States. We wish Shri Kotak the very best in all his future endeavours.

# Total Cost Management—Strategic Management Tool

R. Sundararaj\*

## Introduction

Total Cost Management is a great opportunity available in the present market-oriented economy to overcome the trend created due to increased global competition. Companies were forced to think aggressively about providing a product of high quality at lower cost. Under these situations where prices are determined and controlled by the market, only cost has to be controlled keeping the conception of quality product and simultaneously maintaining their profitability. Hence cost management addresses not only individual activities or cost centre, but also the entire value chain. Cost management requires an integrated approach, involving both strategic and operational areas, which encompass through the organization, horizontally as well as vertically. The Total Cost Management is described as the sum of the practices and processes that an enterprise uses to manage the total life cycle cost investment in its portfolio of strategic assets. It also describes the process employed in the profession of cost engineering.

## Definition of Total Cost Management

According to MCE International (Association for the Advancement of Cost Engineering), Total Cost Management (TCM) is defined as the “Total Cost management is the effective application of professional and technical expertise to plan and control resources, costs, profitability and risks. Simply stated, it is a systematic approach to managing cost throughout the life cycle of any enterprise, program, facility, project, product, or service. This is accomplished through the application of cost engineering and cost management principles, proven methodologies and the latest technology in support of the management process.”

The “systematic approach” is achieved through the TCM Framework, which is represented as a structured, annotated process map that for the first time explains each practice area of the cost engineering field in the context of its relationship to the other practice areas including allied professions.

## Process of Total Cost Management

The TCM process is a systematic approach designed to promote a unified, structured vision of the common purpose for the many cost engineering practices. It is also designed to be industry and asset

generic in that and it applies to any enterprise, program, facility, project, product or service.

TCM provides a strategic model that can help an organization to design its own processes related to cost management.

TCM Framework provides a “map” to individuals in helping them to understand all the practice areas while also helping guide their career planning.

TCM Framework provides a model in the academic arena, for developing cost engineering education and training products and curricula that will serve those individuals and enterprises in need of a broader, more integrated perspective

## Application of Total Cost Management

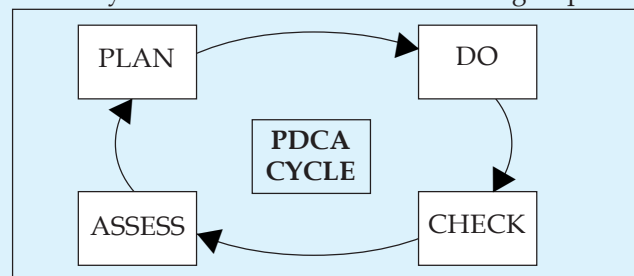
As TCM Framework process is based on broadly accepted “first principles” (i.e., the Deming/Shewhart cycle)

- It can be applied to all types of industries.
- All levels of practitioners like business, academic, and institutional environments can use it worldwide.
- It can be applied on the entire life cycle of asset and project portfolios.
- It has been already successfully tested in reengineering consulting and training.
- It can be read and applied section-by-section at a sub-process or functional level.

## The Basic TCM Process Model

### Plan, Do, Check, and Assess (PDCA)

The TCM process model is based upon the “PDCA” management or control cycle, which is also known as the Deming or Shewhart cycle. The PDCA cycle is a generally accepted, quality driven, continuous improvement management model. The PDCA cycle in TCM includes the following steps :



\* M. Com, AICWAI, Manager (Internal Audit), Indian Rare Earths Ltd. (IREL), A Govt. of India Undertaking

- **Plan** – Depending upon the requirement, planning for asset solutions or project activities

- **Do** – Based on the plan, initiating and performing the project or project activities in accordance with the plan for execution.

- **Check** – Whether the execution is in accordance with the plan and accordingly making measurements of asset, project, or activity performance.

- **Assess** – After execution, assessing the performance variances from the plan and taking action to correct or improve performance to bring them in line with the plan or to improve the plan.

Measurement is a key element of the PDCA process cycle that is often lacking in other management systems that focus on planning. Although we can't manage what we can't measure, it may be found that whatever we measure tends to improve.

### Importance of life cycle costing

Life Cycle describes the various stages or phases that occur during the lifetime of an object or endeavor. Every product or project or asset presumes to have a beginning and an end. For evaluation of a project or product 'life cycle' is considered as one of the important factor because it was found that in many techniques either it was overlooked or has not been assigned with appropriate importance.

For an asset, the life cycle is described as the existence an asset from the stages of ideation to termination and for a project the life cycle is described as the phases of project progress from ideation to closure.

### The Asset Life Cycle

The PDCA control process takes place within the context of the asset and project life cycles. The stages or phases are sequential groupings of processes that result in an intermediate deliverable or progress milestone. While the life cycle for a given asset has a defined beginning and end, the process actions are not a straight line—an asset is usually modified and recycled many times with ongoing ideation leading to changes and improvements. The life cycle of a strategic asset can be summarized in five stages :

1. **Ideation** – recognize an opportunity or need for a new or improved asset; evaluate, research, develop, and define optional asset solutions that address the opportunity; and select an optimum asset solution.

2. **Creation** – creates or otherwise implements the asset solution through execution of a project or program.

3. **Operation** – deploys or puts the new or modified asset into service, function, production, operation, or other use.

4. **Modification** – improves, modifies or otherwise changes or recycles the asset through execution of a project or program.

5. **Termination** – decommission, close, retire, demolish, remove, dispose, or otherwise terminate the asset from the enterprise's portfolio (often through execution of a project or program).

### The Project Life Cycle

The elements of the project life cycle are often referred to as phases and each phase yields one or more deliverables or outputs that become resources or inputs for the following phase. The life cycle of most projects can be summarized in four sequential phases :

1. **Ideation** – given overall requirements of the project, the project team assesses alternative concepts for performing the project and selects an optimal performance strategy. Strategic performance requirements for the project are established.

2. **Planning** – project plans are developed that address the strategic requirements and selected performance strategy.

3. **Execution** – the plans are implemented through the execution of planned project activities.

4. **Closure** – the asset or deliverable is reviewed, tested, verified, validated, and turned over to the customer. Learnings for future use in ideation are documented.

Each phase may be a project in itself that produces a deliverable but not the final asset. While the project phases discussed above are performed sequentially, they usually overlap to some extent. Fast tracking, concurrent engineering, and similar terms refer to project strategies that have highly overlapping phases to achieve faster cycle times.

### Continuous Improvement during a Life Cycle

In PDCA cycle the asset portfolio or project performance or state is required to be continually improved due to changing conditions and it does not return to its original state. An asset's life cycle may include scores of projects to modify the asset—like design and innovation in performance or progress. The plan-do-check-assess process is employed

continually to achieve various milestones or deliverables at each phase of the project life cycle.

### Value of the TCM Framework for Industry

TCM provides a strategic model that can help an organization to design its own processes related to cost management. In this process, companies are continually looking for ways for better strategic performance and then frequently re-engineering their organizations. To find efficiencies and improve quality, they are documenting, benchmarking, analyzing and improving business and work processes.

The TCM process is a systematic approach designed to promote a unified, structured vision of the common purpose for the many cost engineering practices. Cost Management can be effectively applied in all the sectors of the economy like manufacturing or finance, or service, like education, hospitality, health care and resources management. The accuracy in cost management of product and service is the need of the hour, regardless of whether it is rule based or principle based. Unless the consumer is satisfied with the competitiveness and reasonableness of the price they may not accept the product or services.

### Organization of the TCM Framework

As TCM is a quality driven process model, TCM Framework uses Process Management Conventions consisting of flow of inputs and outputs with mechanisms that transform the inputs to outputs. The intermediate transforming mechanisms or activities are referred to as tools, techniques, or sub-processes. The inputs and outputs of TCM consist primarily of data and information.

Few of the important techniques of TCM are :

### Activity Based Costing

This applies the concept of 'resources are consumed by the activities' and 'activities are consumed by the product'. The activities that cause the cost are best studied for control of cost rather than the cost itself. As one of the techniques, the basis of allocation of overhead cost can be adopted if it can give a better result for the management than the traditional approaches. As clear identification of the activities and resources are done meticulously under this method, this technique is one of the most successful ones.

Using ABC to improve the base is called Activity Based Management. It helps to identify the product

segments and helps to take decisions which are required to be eliminated, etc.

### Target Costing

As a cost management tool, target costing helps for reducing the cost over the entire life cycle of a product. Target costing helps to translate the customer requirements into actual product features that can be applied to bring about continuous improvement throughout a product's life cycle. The investments required in design, production and distribution are reduced to achieve the target cost. Thus, target costing can provide a required set of performance targets to stay ahead of competition.

### Conclusion

TCM can be effectively applied in any enterprise where significant resources are to be invested in creation or modification of assets or their equivalent. The asset investment is realized through execution of the project or programs. Optimum benefit of TCM can be taken when an enterprise integrates all portfolio assets having various stages of life cycles and maintains its customers and products.

As TCM is designed to be industry and asset generic, it can be applied to any enterprise, program, facility, project, product or service. □

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# TCM for Sustainable Performance Excellence

P. K. Jayaram\*

*There is an urgent need to re-discover powerful performance applications of Total Cost Management. The TCM approach combined with several cost and management tools and techniques has enormous potential to transform not only an individual business firm but also an entire industry. If TCM approach is quickly developed to make it embedded in the corporate management and decision-making system, it becomes proudly owned by everyone joyfully experiencing the benefits percolating throughout the firm and industry. TCM is an inclusive approach and not a stand-alone cost management technique. It is a way of life and culture seen in companies glowing with sustainable competitive advantage and performance excellence.*

## Introduction

A protected Indian economy, a widely accepted cost-plus pricing system and the absence of customer power in the past gave the Corporate India many reasons for not looking for better means of managing cost. Post-liberation India has opened Corporate eyes to look for shedding costs piling up.

Business environment has changed. Cost information must change with it. The changing opportunities and imperatives of the business world have rendered traditional accounting systems inadequate. TCM offers the right alternative.

With the worldwide competitors offering high quality low cost goods and services, most companies are striving to operate with a 'lean and mean' philosophy not only to survive but also to grow. TCM is considered as a powerful approach with which a business firm can manage cost in a most effective manner (also cost effectively) instead of hitting out blindly at all its cost simultaneously. If muscle gets cut along with the fat, we know the exercise is counter-productive!

**Supplier collaboration :** In today's challenging global economy, companies are under intense competitive pressure to drive top-line revenue, reduce operational costs, increase market share and accelerate innovation. The most successful companies are not doing it alone. Instead, they are looking to their suppliers and partners to help maximize competitive advantage through faster time-to-market and cost reductions. These companies are shifting their strategic sourcing initiatives toward Total Cost Management, or TCM.

### What is TCM?

Total Cost Management is a company-wide systematic and structured approach which provides a holistic framework to control, reduce and eliminate

costs—throughout the value chain. This process of managing the financial outcome of activities encompasses all operations—internal and external. For these reasons, TCM is one of the most powerful approaches that corporations can adopt in their quest for sustainable competitive advantage.

**Total cost management (TCM)** was originally a name given by AACE International [AACE stands for "Association for the Advancement of Cost Engineering"]. AACE first introduced the concept in the 1990s and published the full presentation of the process in the "Total Cost Management Framework" in 2006.

AACE defines "total cost management" as follows: "Total Cost Management is the effective application of professional and technical expertise to plan and control resources, costs, profitability and risks. Simply stated, it is a systematic approach to managing cost throughout the life cycle of any enterprise, program, facility, project, product, or service. This is accomplished through the application of cost engineering and cost management principles, proven methodologies and the latest technology in support of the management process."

AACE International in their TCM framework has given a list of thirteen key Introductory Concepts for Total Cost Management. It is very useful for operational efficiency. However, it heavily dwells on the engineering side of manufacturing and processes.

Hence, though the definition sounds appealing, in reality, TCM, if looked at from an Engineer's viewpoint, does not yield the powerful results it is expected of. The reasons are :

Manufacturing companies struggle against increasing challenges to deliver quality products on

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time and at the required price. All these functions must be performed ensuring the profitability and growth requirements of a demanding public marketplace.

The cost management—heavily skewed towards mechanical computer-aided design (MCAD) and/or product lifecycle management (PLM)—continues to miss the hopeful expectations of industry pundits. The PLM market has underperformed for a variety of reasons. The theory of product lifecycle management is sound, but the vision has eluded many companies, taken far longer, in practice, incurred cost much more than expected and failed to deliver as promised.

A probable reason for the perception of failure, if any, seems to be the inherent disconnection between the goals and objectives of the product-centric engineering constituents and a company's financially based business objectives. The best example of this departmental conflict is the stark difference between the language of engineering and the language of business.

MCAD and PLM, historically, had focused on the engineering and design aspects of product delivery. The language of engineering as spoken by MCAD and PLM is based more on physical attributes of the product and technological capabilities of the software solutions used. The result tends to revolve around a series of conversations about features, rounds, fillets and chamfers.

Business operations focus on financially related concerns such as margin, contribution, and profit. The language of the business is time and money. Right or wrong, the profit motive drives critical company decisions. Again, the ability of the product to achieve the expected financial goals is driven by design and manufacturing decisions that occur early in, and continually throughout, the product delivery process.

The holy grail of "collaboration" is meaningless if the parties are not speaking a common language. The only way to translate the language of engineering into the language of business is "cost," specifically, product cost.

Therefore, it will be more appropriate if we state that the definition of TCM should be based on multi-disciplinary approach with tools and techniques from subjects that deal with cost estimating and cost analysis in a variety of contexts, and with systems and concepts that affect costs and their estimation/analysis. Areas of interest would also include subsets

of accounting, statistics, forecasting, economics, and production operations management.

Thus, the important features of TCM can be identified as :

Total cost management has become very important today as a guiding force for embedding new learning and capabilities into the organization.

TCM translates itself into the universally applicable set of all efforts to improve operational efficiencies in a way that lowers the cost of those operations. It provides a link between operations and strategy.

### Scope in managing value chain

A firm's internal value chain includes all the physical and technological activities within the company that add value to the product. The key to evaluating a company's internal value chain is to understand the activities that give that company a competitive advantage, and then pinpoint and exploit those advantages better than other companies in the industry. TCM helps to identify 'non-value adding' or even 'cannibalizing' activities which should be immediately eliminated. Thus the entire value chain, using TCM, can be made faster, better, and more profitable by minimizing its total costs.

Attempt to lower the cost of an activity is accompanied by an examination of its cost-implications on upstream and downstream activities, both within and outside the company. This unique characteristic of TCM makes organizational change practices such as TQM or Business Re-engineering subsets of TCM instead of subsuming it.

One key principle in TCM approach states a firm cannot manage its cost effectively if the firm focuses only on the costs incurred during the production stage. Rather it is more important to focus on 'pre' and 'post' production stages. TCM philosophy says: "*Don't try to remove cost after the product is designed* because cost is designed into the product and hard to remove later". In this context, the concepts like target costing, life cycle costing etc. would be increasingly applicable for a TCM environment.

### Mere Cost-Cutting Doesn't Work

Mercer Management Consulting analyzed 800 companies from 1987 to 1992. They identified 120 of these companies as "cost-cutters." Of those cost-cutting companies, "68% did not go on to achieve profitable revenue during the next five years."

There are also intangible adverse impacts of an excessive focus on cost reduction: it eats away effort

and talent that could be applied to more productive activities, like developing better and innovatively useful new products and improving operations. For instance, for a company, will it be wiser to give time for training on low-cost product development or to continue being too busy with some cost reduction efforts focusing on a few parts and labour?

TCM is not a basket of stand-alone cost-cutting methods but it is a distinctive approach to cost management built around unique information, tolls, techniques, processes and systems. It revolves around four pivots:

- (1) Total Cost Consciousness
- (2) Total Cost Responsibility
- (3) Total Cost Measurement, and
- (4) Total Cost Improvement.

#### **Total Cost-conscious Culture**

A company that gets every employee to worry about each of the costs he or she incurs each time he or she incurs stand better chance of being a more efficient and effective than the company where such spontaneous 'cost conscious' culture does not exist. TCM strongly supports this and provides the chemicals that can achieve this conversion, i.e. right culture.

In TCM environment, cost is an important aspect for management as well as for everyone in the firm. Monitoring the small cost is believed to help manage bigger ones better. For, when you develop a corporate culture to care small cost savings as well, the feeling that costs are important percolates through the organization.

Top-down commitment as reflected in the management time allotted to cost management planning and review of execution would act as a catalyst to sustain the right organizational culture getting people to switch to a cost consciousness paradigm. In the advanced stage, the firm would immensely reap rich benefits when the participation of its people by empowering them to manage cost is visibly greater than the compulsion of forcing control-mechanism down their throats.

Organizations creating a culture that supports, honours and prioritizes TCM would create greater sustainable competitive advantage to succeed than those which continue to interpret and practice TCM as mere 'austerity-measure'.

#### **Total Cost Responsibility**

Cost management is a responsibility of Finance

Department. It is true that the data compilation, reporting and analytical activities are generally carried out by persons attached to costing department or management accounting or finance department. But, cost management pervades every functional activity in a company. It transcends the traditional number-oriented cost-cutting. TCM enables a company manage costs in a holistic manner. Total—because it covers all functions, total—because it pervades strategy as well as operations. Total because it involves everything and everyone.

#### **Total Cost Measurement**

TCM prompts the Management to ask the following questions. It also provides the right answers :

Does your existing system provide reliable information to answer the following :

Which are your profitable customer segments?

What are your product costs and their profitability?

How well informed are your sourcing decisions?

Do your costs go up despite cost cutting efforts?

Can you reduce your price and yet increase customer value?

If not, turn to Total Cost Management.

TCM believes in this statement: "If you cannot measure it, you cannot manage it". In an ever-increasing competitive environment, inefficiency of one firm is becoming an opportunity for the other. Most of this inefficiency is in terms of the non-value adding activity present in the system. To identify and gauge the progress and to eliminate the inefficiency, measurement is the key.

In the past, companies seldom cared to embrace improvement of white collar productivity, probably because of the nature of knowledge work which, in the early stages, had lesser significance. But today knowledge workers' high contribution, cost factor and roles have grown substantially. 'Activity-Based Costing' is one of the tools which support effective management of costs involved in indirect support functions or service industry. Hence, TCM using ABC is seen more relevant in a non-manufacturing environment as well.

In measurements, it is better to be approximately right, than to be precisely wrong. This calls for a structural change in the measurement systems for undistorted reliable information. Activity based costing got evolved to serve this need.

### Total Cost Improvement

If the business environment has changed at macro level, the cost information used for managing business also must change with it. The role of TCM in sustaining and enhancing competitive advantage stems from the fact that it provides non-traditional integrated cost information concepts that help one analyze business processes, improve analytical basis for planning and improve performance throughout the company. The type of cost information gathered should support strategy implementation and help minimize misalignment between strategy and strategy execution.

### TCM and Innovation

If 'Improvement' refers to 'being better at what we are doing', 'Innovation' refers to 'discovering new ways to do better and to be better'. TCM accelerates adopting new or novel approaches none in the past could use in sourcing, manufacturing, distribution and marketing strategies, as simplified by Michael E. Porter in the words of 'cost-leadership' or 'differentiation' strategies—or a hybrid of both—as appropriate in the five different environmental conditions (or market forces such as entry-barriers, buyer-power, supplier-strength, substitutes, and the intensity of competition).

TCM can also take the company to a true and sustainable competitive advantage position that is unique in the sense it can never be copied by competitors.

However, TCM has since evolved to include tools and techniques of cost and management accounting which can be broadly classified as :

- Managing Organizational Cost
- Managing Delivery Cost
- Managing Structural Cost
- Managing Process Cost
- Managing Production Cost.

The above categorization is only from the point of view of managing the cost with regard to the strategic intent of the firm to ensure proper alignment of strategy with cost management. For instance, while considering the management of delivery cost, the activities and processes in following areas come in strong focus:

Distribution cost, transport cost, breakage cost, marketing cost, brand building and brand sustaining cost, brand enhancing cost, advertisement cost, publicity cost, dealer development cost, dealer servicing cost, stockist/retailer relationship management cost etc.

When we discuss 'managing production cost', application of relevant concepts could include Cellular manufacturing, supply chain management, Just-In-Time, Total Product Maintenance, Total Quality Management, Total Quality Control, Statistical Quality Control, Lean Manufacturing, Rationalizing Production Schedules, Strategic Sourcing, Inventory Management Techniques, Supply Chain integration etc.

Similarly, in the context of Organizational cost, TCM tools could include Administrative Rationalization, Workforce Rationalization, Compensation Models, Labour Contract for outsourcing, Organization restructuring. etc.

### TCM and Value Chain Concept

**Total Cost of Ownership (TCO)** is considered a key principle in supply chain management. The principle of TCO has impacted commercial negotiations by expanding the narrow confines of Price to a vast field of opportunities for attaining Win-Win results. Anyone can get a lower price. The object of good business is to attain the lowest TCO.

The four elements of cost are : **Quality, Service, Delivery, and Price (QSDP)**.

**TCO** =the sum of the cost elements in QSDP, or **TCO = Quality + Service + Delivery + Price**

In the value chain, considerations include upstream (suppliers) as well as downstream (distributors) and how cost advantage could enhance the value creation in every level of the value chain to derive and ensure sustainable competitive advantage supporting the chosen strategic objective of the company. The organizational costs would consider all aspects of organizational-wide operational effectiveness. Change management practices, total quality management, costing and benchmarking systems, concept of price of non-conformance (ponc) would be some of the focused considerations in managing process costs. Managing structural costs could be involving scale of operation, technology, financial restructuring, administrative strategies etc.

### "Market determines the price; Cost determines the profitability"

In this market-oriented economy, organizations are striving to offer customers maximum value at minimum possible price. Since they have more control over cost than price, the obvious option is to turn towards cost management to address the seemingly

paradoxical situation of offering more value at lesser price and still maintain profitability.

This call on cost management require an integrated approach, involving both strategic and operational areas, a system that pervaded through the organization, horizontally as well as vertically. Total Cost Management (TCM) rose to this call.

#### Some tools and techniques of TCM

Activity based costing

Activity based management

Target Costing

Supply chain management

Strategic cost management

PDCA (Plan-Do-Check-Action) Cycle (also using TQM)

EPM (Enterprise Performance Management)

ERP (Enterprise Resources Planning).

CRM (Customer Relations Management)

PIMS (Plant Information Management System)

#### Areas of focus for cost reduction also include

Financial management

Material cost reduction

Energy cost management

Process improvement

Inventory management including JIT.

TCM (Total Cost Management) as an approach is remarkably powerful tool if, for identifying, managing and controlling business costs, modern cost management techniques are adopted throughout the organization—techniques that can help get companies into shaping and giving the managers real financial understanding. It details how to improve the total company's performance by identifying and restructuring these activities that use up company's resources.

TCM approach can not only help manage 'period cost' better but also can unlock the perceived fixed cost element of a 'non-variable expenditure' and release value from such huge investment over a definable period of time.

#### TCM has three fundamental components

- (1) Business Process Analysis
- (2) Activity Based Costing
- (3) Continuous Improvement.

The usage of total cost management (TCM) as an alternative to traditional cost reduction techniques is making it more popular. TCM is a strategic business

concept intended to institute long-term cost reduction by considering an organization's cost structure and by coordinating competitive strategy, technological decisions, personnel planning and investment management. Some of the components of TCM are mission/goals, top management focus, technology, monitoring and control, culture, continuous education and commitment.

Total Cost Management approach highlights an important message: The modern management is increasingly deploying technology to deal with the mundane data capture which results in freeing resources that can engage in activities to study and analyze techniques needed to drive business success. While penny-pinching is an important part of building a financially successful business, it is important that one does not tend to become penny-wise and pound foolish. Thus, the management accountant should care in not being solely focused on cost cutting, but must also be mindful of measuring and instituting controls that drive an efficiently produced product of high quality.

#### Total Cost Drivers

TCM leads a more powerful and different search to manage cost by throwing light on the right points. Output in terms the number of units and input in terms of labour, land and capital alone drive cost. Measuring them through aggregate figures can be understood correctly a to identify the true constituents, as mentioned by the cost management guru Daniel Riley, one should look at the two broadly categorized cost drivers—Structural and Executional.

Structural cost arising from the strategic choices of the firm about how the management wants to do business can be as :

*Scale : the volume [of production, source and selling].*

*Scope : the degree of your vertical integration.*

*Experience : the length of time you are in business.*

*Technology : the process technologies used at every step on the value chain.*

*Complexity : the variety in products and services.*

It is obvious that the choice in each case will have a direct bearing on your costs.

The second set of drivers originates from competency level i.e. how well you do what you do.

These are :

*Workforce Involvement level*

*TQM practice level*

*Capacity Utilization level*  
*Plan Layout efficiency level*  
*Product configuration level*  
*Value Chain linkages achieved*

### TCM and VALUE ANALYSIS

**The concept of Value :** The value of a product can be interpreted in different ways by different customers. Its common characteristic is a high level of performance, capability, emotional appeal, style, etc. relative to its cost. This can also be expressed as maximizing the function of a product relative to its cost:

$$\text{Value} = (\text{Performance} + \text{Capability}) / \text{Cost} = \text{Function} / \text{Cost}$$

We use Value Analysis to analyze and understand the detail of specific situations. We can use it to find a focus on key areas for innovation. We can also use it in reverse (called Value Engineering) to identify specific solutions to detailed problems.

Value is not just a matter of minimizing cost. In many cases, the value of a product can be increased by increasing its function (performance or capability) and cost as long as the added function increases more than its added cost. The concept of “functional worth” can be important. Functional worth is the lowest cost to provide a given function. However, there are less tangible “selling” functions involved in a product to make it of value to a customer. To understand use of this concept, it is important to capture into the product the ‘value’ perceived by the customer. It appears complex. However, TCM approach respects the importance of Value Analysis and helps to manage and execute strategy successfully.

### TCM and ERP

ERP has, undoubtedly, enormous potential to create organizational synergy that drives the development of highly effective processes; but the people in the company have to properly manage it for continual success. The dramatic results are derived from a deep organizational understanding of ERP philosophy. Proactive strategies become the mainstay of the company-wide operating system. Without this organizational understanding, well-intended efforts will deliver wrong results. Organizational profitability is derived from the organization’s overall willingness and ability to improve. Therefore, people at every level must see beyond their local functions and interactively understand how their individual actions increase or decrease profitability. It is in this context that TCM environment offers excellent scope for success in ERP implementation.

### Conclusion

A company adopting TCM approach can not only benefit sustainable competitive advantage but can also break its own performance records. Achieving both – i.e. sustainable competitive advantage and performance excellence – are critical in the current business environment.

The TCM approach should be taken forward to the next level of application – from the level of individual company to that of an entire industry.

TCM adoption is more effective if done (a) industry-specific and also (b) country-specific.

Advanced TCM framework for each industry and for each business environment could be developed. This approach has the following advantages :

**1. Scaling high globally :** Productivity and efficiency in many Indian economic sectors significantly lag behind global standards. Embedded TCM approach would compel the management to address business challenges for more appropriate solutions and take advantage of opportunities specific to industry and/or geographical location. The pressures, actions required, capabilities, enablers are different for each industry.

**2. Caring for a bleeding Sector :** Secondly, in India, agricultural and allied sectors (including production, yield management, distribution and technology adoption) pose challenges which are unique and different from other countries in the world. Application of TCM to agricultural and allied sectors is an urgent need to save even the non-agricultural sectors whose prospects depend on the agriculture and allied sectors.

**3. Achieving quick progress:** Speed matters. Cost escalation, particularly in project management, is a common phenomenon rather than an exception. Growing areas such as Telecom sector, infrastructure (cost control was generally weak in infrastructure projects as a majority of them were long-term projects, where there were many uncertainties that could not be anticipated), manufacturing sector, IT/IT-enabled service sector, construction and project management, healthcare, education, hospitality industry etc. offer wide scope for tailor-made TCM applications and practices for enhancing their competitiveness in cost, quality and timely service and for creating break-through achievements with unparallel global excellence which others in the world would, if unable to emulate, admire for sure. □

# Total Cost Management and its relevance in current day business scenario

Meena Ramji\*

## Introduction

The Cost accounting was developed in an era of industrial revolution where it was a sellers' market. The focus was more on producing more at less cost and very little product variability. Automation had meant producing more with less resources like labour etc. The cost was a simple product of Total expenses divided by the volume. This was an era when one could always get away with a cost plus profit = selling price model, where customer had literally no voice. Ford was quoted as saying "he would provide the customer any colour car so long as it was black." and he got away with that and set up a huge car factory.

Contemporary scenario points out to entirely different business situation. The competition has made the producers accept a Selling price minus cost = profit scenario. In industry after industry, one finds that markets have become global. Competition has ensured high quality, low cost goods and services being made available to customers. The customers look for product variability, Quality, Cost, and prompt Delivery (QCD). There is also a regulatory pressure which forces business to be ethical in protecting the environment at the same time providing the customers prompt service and timely availability. Concepts like JIT, Kaizen have become the new buzzwords for corporates to follow. There is also an element of transparency within which the customer and the seller operates. All these factors have forced the businesses to relook into their businesses and map costs according to the processes or activities. Such a method of ascribing costs according to processes or activities is called TCM.

Traditionally costs were either calculated on the basis of standard costs or on the basis of budgeted costs. The reports therefore showed only standard cost of goods produced or services performed along with the variances from the same. The variances were from predefined cost and hence did not reflect the actual happenings in business. This became an end instead of a starting point for the root cause analysis. Therefore new tools—collectively called TCM—were identified as means of enhancing profitability of business through reduction of muds or waste.

## Shortcoming of traditional standard cost reports

(a) Traditional costing shows an account focus

rather than a management focus; Costs are pooled from financial accounts into departmental pools and then into the products on a volume driven basis. It lacks the link between cost incurred and the activity that required the cost. This can only be overcome by documenting

- The relationship between activities and their causes

- The relationship between activities and costs

(b) Product/service Planning decisions. The decisions about which products and services to offer and how to price them is traditionally based on cost information. However, this is reliable only when all parties to processes, viz marketing, engineering, production, customer service have high degree of sharing of information. As there is a disconnect due to the relative power of different functions, this does not happen.

(c) A questionable role in the capital justification process : The capital acquisition decisions are taken on the basis of factors like IRR etc. Most of the savings are other than in labour. They are in quality, time, flexibility, innovation and responsiveness. The cost information is, however, not oriented to provide insight into likely relationships between investment and the benefits as mentioned above leading to overall profitability.

(d) Incomplete picture of performance : The purposes of present management accounting information is to help improve efficiency and effectiveness of their operation. This gives an exactly opposite effect. This is so because it is incomplete. As a result organizations are not able to achieve what they sought to achieve viz productivity improvement, etc.

## Levels of cost system

Ernest and Young have outlined 4 levels of cost systems :

**I. Infant systems** – represented by poor controls, providing management with essential to useful information. These are usually found in start up companies.

**II. Traditional System** – have better controls but the cost systems are independent of the operational systems. This is useful when there are –

1. Very few product or process changes

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2. Few products being manufactured or few services being offered
3. A highly labour intensive process that produces goods and or services.

**III. Integrated Information systems :** are fully integrated with the operational systems. The emphasis in these systems are fully integrated with the operational systems. But the emphasis is not well matched to the operational technology or to the organizational environment. In other words, these do not provide sound basis for apportionment of overheads or control of the same.

**IV. Total cost management systems :** E & Y defines TCM as a comprehensive management philosophy enabling optimum utilization of resources such as men, material and labour.

#### Characteristics of TCM

- Focus on cost prevention as opposed to cost reporting
- Provide a direct link between operating performances and strategic objectives
- Focus on measurement of product or service profitability and cash flows in addition to cost flows and cost accumulation.
- Include selling, general and administrative costs in the decision support function of Cost systems
- Equalize the importance of using technology for profit improvement as well as cost reduction
- As far as possible convert Overhead into direct expenses by establishing a direct relationship with the cost drivers or what drives the overhead
- TCM should be a way of life.

#### Key principles of TCM

The three key principles for establishment of TCM are :

1. Business Process analysis
2. Activity based costing
3. Continuous improvement.

#### Business Process analysis

Traditionally we have been viewing business as only the departments or cost centres where work is carried on. However, this perception needs to be substituted with an understanding that business consists of interrelated processes, and executives need to develop a process orientation in their management philosophy. Corporations tend to view their firms as groups of departments which create departmental walls and ignores the flow of work. Many activities are carried on in the course of manufacture to produce

a product or service. This series of activities are called processes.

#### Table Showing a process view of Issue of automobile policy

Sr No.	Process	Activity
1	Agent	Completes Policy Application
2	Underwriting	Evaluates Risks and assigns rating factor
3	Rating	Codes Policy, calculates premium, and produces policy
4	Quality Assurance	Checks policy for completeness and accuracy
5	Mail Room	Mails policy
6	Agent	Reviews Policy, signs it or mails it or delivers to policyholders

Reference (E & Y – Total Cost Management)

This shows viewing organization as a collection of processes rather than as a hierarchy of departments – a single most important conceptual requirement for improving management accounting.

This becomes relevant when we look at

1. Business process improvement or cost reduction program
2. Becomes a foundation for initiating activity based costing and continuous improvement program.

Talking of a process orientation appears to be easy to view but difficult to comprehend. Managers acquire power and authority around the reporting hierarchy. People tend to view the departments as a place to increase their power by increasing the head count, budget, and span of control. The work, however, flows across the departments. Each of the processes requires participation from the multiple functional areas. No one department has a complete responsibility for any process. The following figure illustrates difference between the departmental view and the process view.

Processes	DEPARTMENTS					
	Sales	Marketing	Other Management	Engineering	Purchasing	Accounting
Proposals/Quotations	×	×				×
Customer Negotiation	×	×		×		
Order Entry	×	×	×			×
Order Engineering		×		×		
Procurement				×	×	×

PROCESSES VS DEPARTMENTS



Answers to Questions such as :

- What work flow is required to complete the process?
- Where are the bottlenecks
- At what points in the process is the quality of output unpredictable
- Are there any non-value adding activity from customers' point of view
- How much time does it take to complete the process
- How much does it cost to perform a process  
Will enable reduction of process cost.

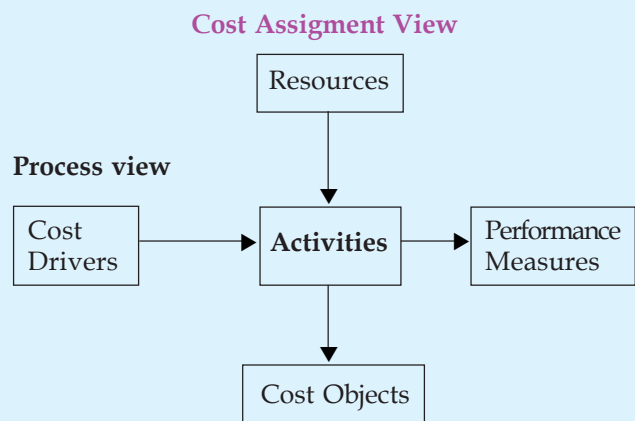
The process view enables managers to control the activities that control cost.

### Activity Based Costing

The second component of the TCM is the ABC. Traditional costing seeks to understand and control costs by grouping overheads into fixed and variable types. However, in actual fact, the overheads cannot be broken into such tight compartments. When business is understood in terms of processes, the contemporary method of costing such processes is called activity based costing. The ABC recognizes this concept and the costs are traced on the basis of what drives those costs. These are called cost drivers. The technique which is used to cost business processes and the cost objects is called activity based costing. The major advantage under ABC is that it costs all activities which are carried on in a business like purchase, selling, warranty, warehousing etc. These are in addition to identified direct costs like material, labour, and direct expenses. Activities like set up times, ordering costs are also costed.

Under the traditional costing system, the allocation of overheads and other such expenses is on volume basis. This means that high volume products bear more cost than a low volume product. There is an apparent disconnect between the reality and the actuals. There may be a product which may require more time from the shop floor, more time of the production people in the form of design, more interactions with customers etc. but the volume may be low. Such a product under a traditional cost accounting method will bear very less cost when the absorption is volume driven. When decisions are taken on these basis, there is bound to be questions from the management where the profit as per projections and actuals do not tally. The conservative cost accountant feels wrongly that ABC is a old wine in a new bottle little realizing that the old wine was

valid only for old economy when—like Ford era—there was no product variety. Today there are heavy product varieties which need us to think of new ways to track costs. The ABC has also undergone refinements and you have today Time Driven ABC as the latest. An ABC enables one to focus on not only product costs but also appreciate the activity costs which could lead us to dwell deeper to find out the value adding activity and the non-value adding activity. The NVA is the mud or waste which, if eliminated, leads to automatic cost reduction. This takes us to next important topic called Kaizen or continuous improvement project which is part of TCM.



Cost assignment view provides information about resources, activities, and cost objects. The underlying assumption is that the cost objects create the need for activities, and activities create need for resources. The vertical boxes are the cost assignment view.

The Horizontal part of the cross represents the process view. It provides information about the work done in an activity and the relationship of this work to other activities. As already stated, the process is a series of activities that are linked to perform a specific goal.

Cost drivers are factors that determine the work load and effort required to perform an activity.

### Continuous improvement

The third element of TCM is the Continuous improvement or Kaizen. Any Continuous improvement project in a Shop Floor is known as Gemba Kaizen where Gemba is shop floor and Kaizen is Continuous improvement. The continuous improvement refers to those activities which seeks to improve

- The quality of products and services

- The responsiveness to customers
- The quality of output—i.e less of defects
- Optimization of production by reduction of wasteful activities
- Financial health and well-being of business
- Ability to leverage assets ( perform more with less).

TCM provides two important means of Kaizen

1. Provides a means of measuring performance
2. Provides information to make tactical and strategic decisions.

Any improvement can be understood only if there is measurement involved. When do we realize that we have bettered yesterday's performance? Only when we have measured what we have done yesterday and that we will not be able to say by how much we are short unless we fix a target.

Therefore we need to

1. Set Goals which need to be achieved—long term, medium term and short term. The goals should be SMART – Specific, Measurable, Achievable, Realistic and Time bound.

2. These goals should be fixed for critical business parameters on which success depends.

3. There should be a balance between financial and non-financial measures. Goals should cover both these – otherwise there is a possibility on focusing on a critical parameter which may not have much financial impact. Many a time we measure efficiency ( which measures how well we are doing) without measuring effectiveness (which measures whether we are doing the right things). We may be doing very well the wrong things and then blame everybody that things are not doing so well!

The non-financial factors like *Productivity* (which measures output for given inputs), *Utilisation* (the use of resources), *Speed* and *Quality* make up the other set of information which provide relevance to decision making.

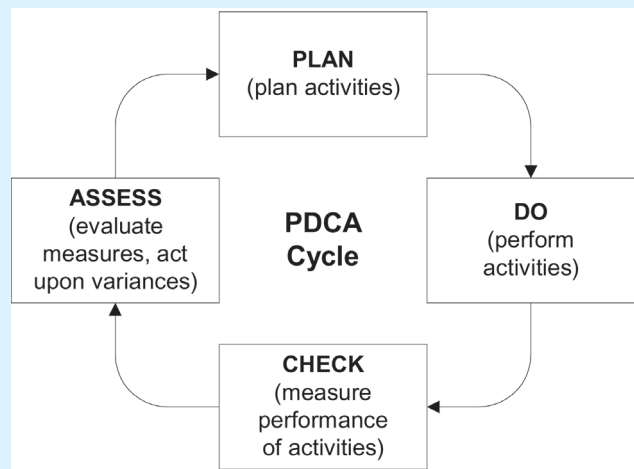
4. The fourth type of change is reflected in the format which focuses on spirit of improvement. This means one needs to recognize small successes so that there is a strong motivation to improve further. There should be a recognition of a trend of improvement over a period of time. It is also important to measure itself against what others have achieved. Such an approach is called bench marking.

Toyota production system is known for Kaizen where all line personnel are expected to stop their moving production line in case of any abnormality

and alongwith suggest an improvement to resolve the abnormality which may initiate Kaizen.

The Kaizen or Continuous improvement is done as a sequence of activities. This is also known as Shewhart cycle.

### Plan-Do-Check-Assess (PDCA)



The other tools which are used for Kaizen are :

1. 5 S which helps in bringing some orderliness in production methods.

2. 5 whys help find out the root cause for any problem. The user asks why to a problem. Its answer five successive times. There are normally a series of root causes stemming for one problem and they can be visualized using fishbone diagrams or tables.

Success of TCM lies on the following factors :

1. Team work
2. Personal Discipline
3. Improved morale
4. Quality circle
5. Suggestions for improvement.

### Conclusion

Thus TCM is a systematic way of looking at business in order to sustain growth and maintain profitability by optimizing resource utilization . It thus aims at providing a scientific approach to business and enables the user or organizations to look at problems objectively and solve them. Thus it becomes a necessary and relevant tool to meet the challenges thrown up by businesses. Leading industry organizations like CII are today engaged in bench marking TCM practices across corporates in India in order to sustain and enhance domestic competitiveness in face of Global Challenges. □

# Costing for Pressure Die Casting Operations — An Activity Based Perspective

G. Balasubramanian\*  
R. Jayaram\*\*

## Introduction

**D**ie casting is a versatile process for producing engineered metal parts by forcing molten metal under high pressure into reusable steel molds. These molds, called dies, can be designed to produce complex shapes with a high degree of accuracy and repeatability. Die castings are among the highest volume, mass-produced items manufactured by the metalworking industry. Die cast parts are important components of products ranging from automobiles to toys.

The purpose of this article is to highlight the potential insights that the Top Management and Operational teams can gain from adopting an ACTIVITY BASED APPROACH to costing of Pressure die casting operations. The article is based on a live implementation of Activity Based Costing (ABC) at a leading auto ancillary unit at Chennai (Referred to as Company X in the article).

The case study would dwell into the following aspects :

1. A brief overview of the company and the industry in which it is operating
2. The ground situation that led the company towards consideration of ABC
3. The groundwork that was required prior to implementation
4. The actual implementation and aspects that were taken into consideration
5. The benefits realized post implementation
6. Scope for further refinements and the potential benefits consequent to pursuing the same.

## Industry Background

The Indian auto component industry is one of India's sunrise industries with tremendous growth prospects. The industry has emerged as one of the key auto components centres in Asia and is today seen as a significant player in the global automotive supply chain.

The industry's turnover is likely to touch US\$ 40 billion by 2015-16. The potential compounded annual growth rate (CAGR) of the auto component industry is estimated to be 11 per cent in the period 2008-15. Exports from the auto component industry is estimated to be worth US\$ 3.8 billion in 2008-09,

recording a rise of 8 per cent over the previous fiscal, according to an ACMA report.

However, the auto component industry is also facing tremendous Cost and pricing pressures :

- a. Rising commodity prices of inputs like aluminum, steel, etc
- b. These commodity prices are also highly volatile
- c. Small suppliers who are very protective about their margins irrespective of the pricing pressures exerted by the OEM's
- d. Rising cost of Labour due to inflationary pressures
- e. Tremendous Pricing pressure exerted by OEM's due to intense competition amongst them
- f. Heavy reliance upon the OEMs volumes (demand for auto component industry is a derived demand)
- g. Fierce competition from global players, especially the Chinese, on the price front
- h. Stringent environmental norms.

## Corporate Profile of Company

Company X's principal activity is to manufacture and market automotive components. Its products include Gasoline Systems & Products, Diesel Systems & Products, EMS System Products, Emission Control & Other Products, High pressure Die cast Products and Precision Machined Products. The Group's customers include Maruti, Hyundai, General Motors, Cummins, Bosch, Mikuni, TVS Motor Company, Bajaj Auto, Suzuki, Yamaha and Hero Honda motors. The company had recently also entered the CONTRACT Manufacturing market and an exclusive facility was established for this purpose. It was at this Plant that an ABC study and implementation was proposed.

The driving factors of this decision were :

● **Nature of Operations** — There was no assembly operations in the concerned facility. It was only die casting and machining.

● **Consequent Cost structure** of the Plant (percentage of Material to total cost was a crucial factor). Lesser the material cost higher would be percentage of VA and hence greater in terms of implementation priority.

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● **Type of customers served and nature of competition** – The Machined castings market was highly competitive and threat of customers shifting to new suppliers was very real. This was because there was not much technology involved and Company X's ability to leverage the 'QUALITY' aspect – beyond a certain extent to impress upon customers – was limited. Most of the parts manufactured at this Plant were of 'build to print type'. The margins were also very low and hence the scope for operational inefficiencies the least.

● **Availability of data** (basically the readiness level at the Plant)

The Plant Managers had developed an Ingenuous system to capture critical non-financial data through a self-developed package using MS Access and hence this Plant was the best in terms of data availability.

It is also necessary to mention here of two **critical developments** that were to have far-reaching effects on development of Costing systems in Company X :

a. The increasing use of Lean & TPM approaches at the Plants and the consequent claims about increased productivity and reduced poor quality by Plant teams needed to be buttressed by financial data. The Top management was tired of being bombarded with Productivity Improvement data on one hand without there being any visible effect on profit parameters.

b. The Marketing team found itself increasingly unable to negotiate with Customers who now went into details of prices submitted by UFSL. These teams now needed detailed break up of costs – operations-wise. In addition, the related actual costs and current market rates for various operations was required. The mounting number of bids lost by Marketing team convinced the Management that the existing system was woefully inadequate.

The need for more accurate cost information was accentuated by the recession that struck the Auto industry in late 2007.

### **An Overview of the Plant's PDC operations**

The Plants PDC setup was :

Machine	No. off	Melting Furnace	Holding Furnace
250 Tonne	1	Electric fired	Electric fired
400 Tonne	4	Electric fired	Electric fired
900 Tonne	1	Diesel & gas fired – combined melting & holding furnace	
Runner cutting machines	2		
Shot blasting machines	2		

All the Machines were Cold Chamber machines and Aluminium was the main raw material used. In addition, due to paucity of capacity, the Plant was also outsourcing a part of its Casting requirements, in particular the bigger casting that required the 900 T facility in the first place.

### **Actual Implementation**

#### **1. Formation of an ABC CFT (Cross functional Team)**

The Team consisted of representatives from each of the production and service departments at the Plant. Responsibility for collection and dissemination of information was delegated to the team members. The initial responsibility of the team was to ensure the use of Cost & Product codes by Plant people. The Accounts staffs of the Plant were to assist them in this regard initially.

#### **2. Preparation of an ACTIVITY DICTIONARY**

The Package implementers in consultation with the CFT team members and departmental heads and Costing representative listed out the critical Activities performed by each of the departments.

This list was to serve as the Activity Dictionary. The initial list of nearly 100 activities was further pruned to around 35 activities. The criterion was:

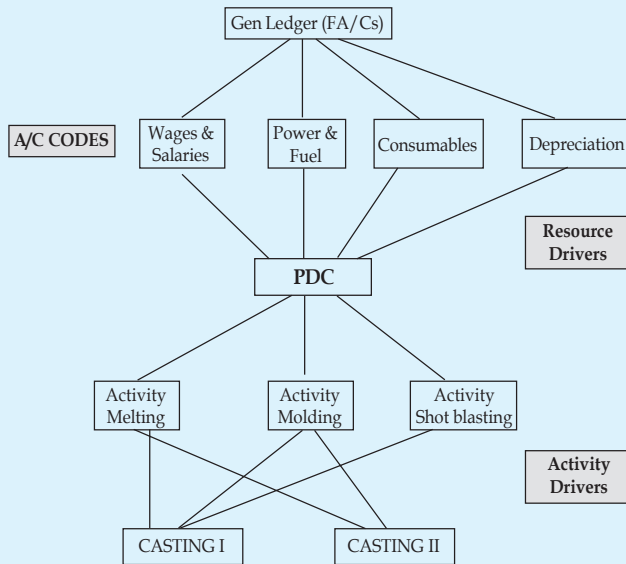
- Activities that consumed less than 10% of time were ignored.
- Ability of departments to provide related driver data on a regular basis.

For this purpose the activities in PDC Department were classified as :

- I. Primary
  - a. Furnace Related
  - b. Machine related
  - c. Fetting
  - d. Shot blasting.
- II. Support
  - a. Die design and procurement
  - b. Die and machine maintenance
  - c. Machine setting up
  - d. Casting inspection – R1, 2 & 3.

#### **3. Cost Identification & Allocation Methodology Adopted**

The mapping of costs captured for PDC cost centre was done as diagram given next :



The allocation basis was as :

a. Department to Activity allocation

The expenses (resources) booked in PDC Cost centre was traced to activities (For list of activities refer pt 2). This was done through Resource drivers. Resource drivers are bases of allocation of resources to activities. They represent the best single quantitative measure of the frequency and intensity of demands placed on a resource by the activities.

b. Typical Resource drivers adopted were :

SNo.	Activity	Resource Driver
1	Furnace (melting & holding)	Volume of Aluminium melted (in kgs)
2	Die casting Machines	Machine hours operated per month
3	Shot blasting	Shot blasting machine hours
4	Runner cutting	Runner cutting machine hours

a. Linking of activity costs to products :

Once Cost of Activities were established the linkage between activities and Cost objects such as Products, Services and Customers was accomplished by using Activity Cost drivers (refer exhibit).

The allocation bases were :

● **Activity to Activity Allocation :** (A to A allocation)

The ABC model facilitates allocation of expenses from certain service/utilities activities to other direct activities.

● **Activity to Products/product segments Allocation :** (A to P allocation)

Once the expenses had been taken to the direct activities, the costs were allocated to the products/product segments based on drivers, like machine hours, oven hours, labour hours etc.

Department	Activity	Driver	Allocation Method
	Die-Casting 420 T -A	Product-wise Machine Hours - Machine A**	A to P
	Die-Casting 420 T -B	Product-wise Machine Hours - Machine B	A to P
	Die-Casting 420 T -C	Product-wise Machine Hours - Machine C	A to P
	Die-Casting 420 T -D	Product-wise Machine Hours - Machine D	A to P
	Die-Casting 250T	Product-wise Machine Hours - 250 T	A to P
	Die-Casting 900T	Product-wise Machine Hours - vac Die Casting	A to P
	Furnace cost (Each of machines)	Product-wise weight in kgs	A to P
	Runner Cutting	Product-wise Runner Cutting Hours	A to P
PDC	Casting R1 Inspection	Time Spent Product-wise R1 Inspection	A to P
	Fettling	Product-wise Fettling Hours	A to P
	Casting R2 Inspection	Time Spent Product-wise R2 Inspection	A to P
	Shot Blasting	Product-wise Shot Blasting Hours	A to P
	Rework	Product-wise Rework hours	A to P
	Casting R3 Inspection	Time Spent Product-wise R3 Inspection	A to P
	Tool Setting up	Product-wise Tools Setting up Time	A to P
	Machine Setting up	Product wise Machining setting-up Time	A to P
	Die Design and Procurement	Time spent on procurement Die-wise	A to P
	Die Maintenance	Maintenance hours Product-wise (or die-wise)	A to P

\*\*Product-wise machine hours refers to volume produced of each model on each of the machines \* respective Cycle time per casting

### Costing For Support Functions

To cost the support activities the following allocation method was adopted. For example, Break down Maintenance activity cost was apportioned to production departments, namely Die casting & Machining based on the cell wise and Machine, wise maintenance hours spent. (A to A allocation)

The Die casting machine wise break down costs were allocated to Products based on the quantity of various products produced on the machines and their respective cycle times (A to P allocation)

#### 4. Creation of Masters

The next stage was creation of Masters. The following Masters were created in the package :

● **BILL OF MATERIAL** for each product

- Customer Master – for each customer and also related Category Master (i.e. Export/Local)
- Cost object Master – for all finished parts manufactured by Plant
- Part Number Master – to identify the part numbers for each stage of production (ie casting, machined etc)
- Department master
- Activity Master

The entire exercise was undertaken after taking the Plant Head and CFT's into confidence.

### DELIVARABLES - Post Implementation

#### 1. Activity Rate

- Furnace—Melting and holding costs /kg of metal melted
- Machine—Machine hour rate
- Shot blasting (if done in-house)—Shot blasting rate/hour

A further dissection of these costs would reveal the effect on costs of following factors :

- Machine/Furnace utilization.
- Size of the castings
- Number of times the furnace is stopped and restarted
- The variety of castings produced on a particular machine.

#### 2. Consumption pattern of Consumables

#### 3. Costs of Rejections at various stages of the die casting process

For this purpose the rejections are classified as :

- Rejections of castings prior to fettling
- Rejections after fettling prior to shot blasting
- Rejections after shot blasting

4. Cost of Tool changing/set up (the effectiveness of adoption of practices such as SMED can be evaluated) and ways and means of reducing the tool change time evaluated. It is pertinent to note that the change-over time also has a direct bearing on Machine utilization

5. Costs of Die maintenance activity

6. Costs of Preventive and Break Down maintenance activity

It is for the first time that the company was able to have a bird's eye view of its Die casting operations.

The enormous amount of Analytical reports generated by the package had a profound impact on the Plant's operations.

### Post Implementation Benefits

#### 1. Multiple Driver rates

Instead of a single Machine hour rate the company was now able to have a better idea of its die casting operations. In particular, factors such as weight of casting, the surface area, machine utilization—which were not visible earlier but which clearly had an impact on final costs—were now clearly identified. (Exhibit 1).

#### 2. Capacity Utilization

The availability of Cost driver rate trends invariably led to Plant teams to look into details of Line utilization during the month. The link between higher Machine hour rates and reduced utilization led to further introspection. In addition the following areas were examined line wise/cell-wise :

- Down time of Machines
- The reasons for the same :
  - Due to Preventive maintenance
  - Breakdown
  - Time consumed on setup changes (especially for die casting machines)
  - Line stoppage due to want of material

#### 3. Make or Buy decisions

The availability of\*\* **Multi Process** Cost reports enabled plant managers to evaluate cost of performing operations In-house visa vies Outsourcing them. The Plant was forced to outsource a portion of their die casting operations due to capacity limitations. The multi process reports clearly pointed towards significant cost savings by performing the operations In-house. This information was of great help to Plant Managers (Exhibit 2).

- Supporting their requests for further Capacity enhancement (Capital Investment proposals)
- In renegotiating costs of purchased castings from suppliers

#### 4. Renegotiation of Prices with Customers

The ABC method clearly highlighted the increased costs of running small batches in PDC operations. The results forced the Corporate Marketing team to go in for renegotiation of prices for specific low volume products belonging to same Product category, which, until then, were offered at the same rate as high volume parts. In addition, the Marketing team was made to request for tooling advance from customers for low volume parts.

#### 5. Support to Kaizen initiatives

Another positive by-product due to ABC implementation was the improved availability of

information for Kaizen activities. The measures instituted for capture of various non-financial information for ABC purpose ensured better availability of data on process quality, cycle time, time for setups of machines and dies, power consumption pattern, etc. Employee work teams were able to constructively use this data for continuous improvement activities

#### 6. Continuous Monitoring of Rejection Costs (Exhibit 4)

• The most visible impact was the increased awareness on Process rejections and its adverse impact on profit margins of the Plant. The cost of rejections which were accurately captured by the package was brought down from close to 12% on monthly sales to 5%. The potential savings due to this alone accrued to nearly 18 million rupees per annum. This was of extraordinary significance considering that the total turnover of the Plant was only Rs 360 million per annum.

**EXHIBIT 1** (Driver calculation & Activity-wise cost element break up)

SAMPLE DRIVER RATES CALCULATION				
Department	PDC			
DRIVER		Mach hrs	Qty of Metal melted	Mach hrs
		400T A MC	FURNACE	SET UP
S No.	Cost Element	Rs	Rs	Rs
1	Power	35598	263257	
2	Operators/Staff salaries	8449	12420	3650
3	Trainees salaries	3650	3650	1127
4	Consumables	70096		
5	Depreciation P&M	52083	2639	
6	Rep & Maint P&M	61595		
	Rep & Maint Others	28700		
7	Other Manufacturing exps	1436		
8	Administration	635		
	TOTAL	262,242	281,946	4,777
	Tot Driver Qty (MACHINE HOURS)/ METAL QTY	526.67	21552	526.67
	DRIVER RATE	497.92/Mhr	13.08/kg	9.07/mhr

**Exhibit 2 – MULTI PROCESS COST SHEET** (same product produced by different routes)

#### PRODUCT X ROUTE-WISE – Cost break-up

S. No.	Cost Element Group	Job Work	In House
SALES		355.06	355.06
MATERIALS			
1	RAW MATEIALS	161.84	161.84
2	JOB WORK	98.73	
TOTAL OF MATERIALS :		260.570	161.840

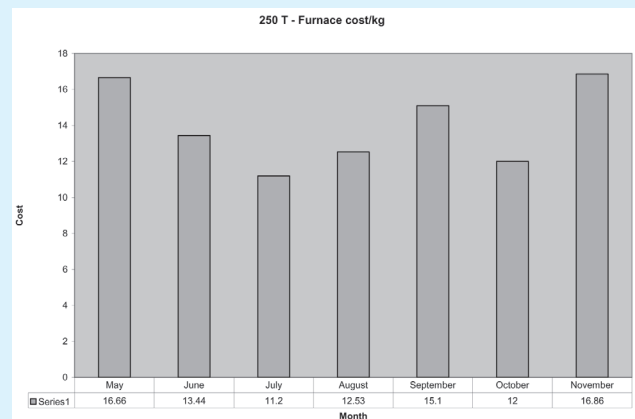
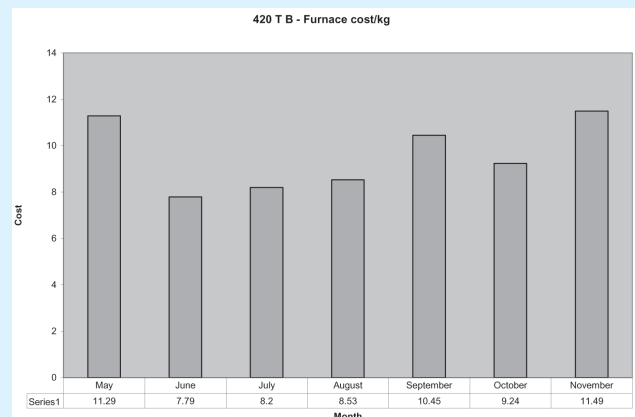
#### VARIABLE

1	PACKING MATERIALS	15.00	15.00
2	CONSUMABLE STORES	2.00	5.16
3	POWER	6.11	52.32
4	FREIGHT	8.75	14.60
5	TOOLS AND DIES COST	47.28	38.34
TOTAL OF VARIABLE :		79.140	125.420

#### FIXED

1	ADMIN. EXPENSES	8.16	9.71
2	FINANCE CHARGES	0.22	0.22
3	SALARIES & WAGES	4.50	17.20
4	REPAIRS & MAINT.	0.79	19.36
5	DEPRECIATION	15.75	15.75
6	DEPRECIATION OTHERS	7.03	7.03
TOTAL OF FIXED		36.45	69.27
<b>TOTAL COST</b>		<b>376.16</b>	<b>356.53</b>
<b>PROFIT / LOSS</b>		<b>-21.10</b>	<b>-1.47</b>

#### COST DRIVER RATES (Trend Analysis) – Exhibit 3



Contd. to Page 591

# Total Cost Management : A Never-Ending Need for Redefinition

Sujit Kumar Roy\*

## Introduction

W. E. Deming and Joseph M. Juran, the two gurus of Total Quality Management (TQM), were not considered prophets in their own land—the United States of America. But Japan made no mistake; it had learned by heart what these two quality gurus had said in a series of lectures to the Japanese engineers, managers and corporate leaders during 1950s. In consequence, by 1970, the US market was swamped with Japanese electronic goods and automobiles that were not only superior in quality but also cheap in price. Japanese manufacturers had proved that they could produce higher quality goods at lower costs mainly because of their mastery of quality management and their use of just-in-time manufacturing along with innovative cost management techniques.

However, in the TQM literature there is no precise definition of the term “quality” – it revolves around a number of attributes like “fitness for use” “design”, “conformance” or “customer satisfaction” ( Fink, p. 307). The polemics notwithstanding, Deming (2000) argued that quality without consideration of price has no meaning. This is so because, in a competitive environment, a firm is a price taker, while the investors decide on acceptable rate of return. The only thing left at the control of the organization is cost. It is the broad field where firms can apply their strategies to develop competitive advantage in terms of cost leadership. Harvard Professor Michael Porter, therefore, suggested that, in today’s competitive business environment, all companies have to be low cost producers alongside their efforts to differentiate their product or services from those of the competitors. This is precisely what Total Cost Management is all about—meeting apparently two opposite ends, quality and cost, in one place. Viewed from this angle, Total Cost Management may be described as sobriquet for TQM that bridges the hiatus between cost and quality.

It may be pointed out that the term “Total Cost Management” came to greater prominence under the auspices of the US-based Association for the Advancement of Cost Engineering (AACE International) which claimed it to be an invention in project management technique (but admittedly not confined to it) that focuses on engineering judgment and skills of cost management to plan and control resources, costs, profitability and risk.

However, any attempt to claim novelty with this concept is subject to the fact that Cost Engineering as a discipline is much more anterior to AACE’s Total Cost Management (see for example, Miles, 1961) and that many of the innovative cost accounting tools that accompany the concept are integral part of the TQM movement in Japan. In fact, in the early 1980s, the Japanese automobile industry felt the need for total cost management which subsumed product development and design activities as well as use of target costing and Kaizen costing (See Monden and Hamada, 1991). Another excellent review on how similar accounting control system supported manufacturing excellence in the Japanese companies is elaborately discussed in a Harvard Business Review article titled “Another Hidden Edge Japanese Management Accounting” by Toshiro Hiromoto (1988). Besides, many aspects of the accounting system which are being placed under the rubric of TCM can be traced to the developments Strategic Management Accounting (SMA)—a field that unfolded itself in the early 1980s owing to the new manufacturing environment characterised by computer aided design (CAD), just in time (JIT) and flexible manufacturing (FM).

Nevertheless, since the idea of TCM was introduced in the early 1990s by the AACE International, it received instantaneous support and respect from the corporate managers around the world for bringing in some revolutionary changes in the ways it began to look at cost and profitability by exploring the new vista of cost reduction opportunities. The primacy of such cost reduction drive appears to be an indispensable weapon to survive on the face of competition unleashed by globalization. As a low cost high quality product has become an object of desire to gain competitive edge, companies are now forced to think aggressively about effective Cost Management; finding out the ways to reduce cost has become the main issue for the organizations stepping into the uncertain environment of this century. Indeed, as the global economy is limping back out of the recession triggered by the global financial meltdown, we have also gained an important insight that a sustainable cost reduction programme in good times as well as in bad times has become fundamental to effective management. The

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firm which rides through the economic downturns in the best possible manner is the one with the best cost management system.

India, being an important player in the globalisation and more so for being a close rival of the Chinese in the race to dominate the global market, cannot remain insular to the developments in the field of Cost Management. There is a continuous need to benchmark the Indian manufacturing sector against the very best in the world in order to enhance competitiveness of the manufacturing sector.

In the backdrop of such significance, the remainder of the paper briefly touches, first, upon the AACE's vision of TCM and then proceeds further to have a close look at some of the cost management tools which are so integral to the process of TCM.

### An Idea Analogous to TQM

Being more of a generic process than a particular technique, TCM involves application of engineering judgment and experience to problems of business and program planning; cost estimating; economic and financial analysis; cost engineering; program and project management; planning and scheduling; cost and schedule performance measurement, and change control [Section 2 of AACE Constitution]. The AACE called it the world's first integrated process for portfolio, programme, and project management. It covers the planning, measuring, and control of the totality of company resources invested in assets and projects over their total life cycle. It covers all asset and project types, and everything in the organisation that generates a cost. Therefore, in the context of TCM, "Total" refers to TCM's comprehensive approach to managing the total resource investment during the life cycle of the enterprise's strategic assets. The "enterprise" can be any endeavour, business, government, group, individual, or other entity that owns, controls, or operates strategic assets [Hallmann, 2006: p.3].

With such a broader field of application in mind, AACE has formally defined the term "TCM" as "the effective application of professional and technical expertise to plan and control resources, costs, profitability and risks. Simply stated, it is a systematic approach to managing cost throughout the life cycle of any enterprise, program, facility, project, product, or service. This is accomplished through the application of cost engineering and cost management principles, proven methodologies and the latest technology in support of the management process" (ibid, p. 3).

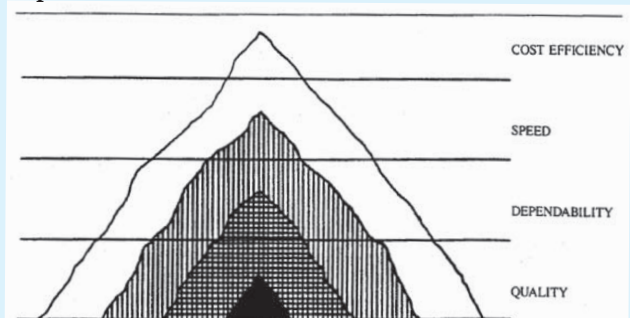
TCM and TQM appear to be the congenital twins – essentially the same idea is espoused by the TQM principle where "each part of an organisation has

customers, both originating within the organisation as well as outside of it. The core of the total quality approach is to identify the customer requirements and then put all efforts into meeting them. This requires several things, including a good quality management system, statistical process control (SPC) and teamwork. These are complimentary in many ways and they share the same requirements for an uncompromising commitment to quality" (Fisher, Richard and Gupta, 1994). Thus, both under the TQM and TCM, the letter "T" – denoting "Total" – stands for organisation-wide commitment to management of the attributes enunciated above.

The term "TCM" is not the terminology in the Total Quality Management literature, but the philosophy behind TCM is not different from the one used in TQM. In fact, Deming (1982), Juran, Gryna and Bingham (1974), Crosby (1979) and Garvin (1987) reported that many companies engaged in quality improvement programmes also reported lower costs. They show that improvements in cost efficiency and quality performance in manufacturing are not necessarily mutually exclusive but, as a matter of fact, better cost efficiency can be a consequence of investment in quality improvement programme.

The importance of viewing TCM in a complimentary relationship with TQM has also been demonstrated by Ferdows and DeMeyer (1994), who had studied 187 European manufacturing firms to report that long-term cost improvement is the end result, with its roots deeply lying in quality, dependability and speed. The cumulative effect of quality, dependability and speed influences current gains in cost improvement. Fredows and DeMeyer (1994) illustrate their experience in this respect with the help of a sand cone (Exhibit 1) with quality at the bottom and cost at the top. Accordingly, as their model suggests, increase in quality helps increase dependability, then gains in both quality and dependability boost up gains in speed. Finally, the cumulative effects of these prior gains result in efficiency gains.

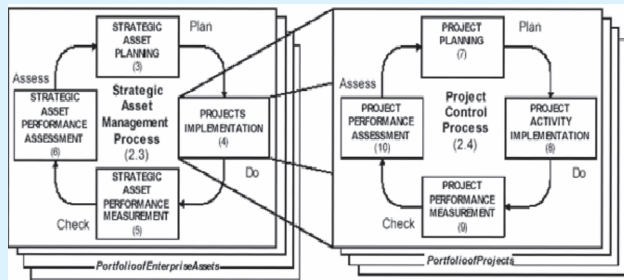
**Exhibit 1 : Development of Lasting Manufacturing Capabilities – The Sand Cone Model**



Being a quality management process at heart, the PDCA process (also known in the TQM literature as the Shewhart/Deming circle) is also ingrained in each and every TCM process.

The PDCA, which is also known as the virtuous circle of TQM, stands for plan, do, check, and act. In the context of project management, an illustrative example of the application of PDCA in Total Cost Management is given by the AACE in the diagram below :

Exhibit 2 : The Virtuous Circle of TCM



The PDCA cycle in TCM includes the following steps :

- **Plan** : plan asset solutions or project activities.
- **Do** : initiate and perform the project or project activities in accordance with the plan.
- **Check** : making measurements of asset, project, or activity performance.
- **Act** : assessing performance variances from the plan and taking action to correct or improve performance to bring it in line with the plan or to improve the plan.

These steps are repeated as activities and time progress – until such time as the asset or project life cycle is complete.

### Traditional Cost Reduction vs Total Cost Management

Sailing in propitious wind is not a problem. But in recessionary environment, companies are often faced with the options like “cutting and slicing”, “repositioning”, “retrenching”, “restructuring”, and “downsizing/rightsizing”, followed by the inevitable cost crunch that affects everybody in the organization. While the palliative is offered by such traditional cost reduction measures, the associated reduction in the morale and value of human assets sets the stage for potential long-term failure for many organisations. For instance, retrenchment/pay cuts will decrease cost immediately, but these will not only wane down the morale, motivation and commitment of the employees, but can also entail exodus of the talented employees out of the organisation. In contrast, TCM

builds on the underlying organisational cost culture by the effective application of professional and technical expertise to plan and control resources, costs, profitability and risk. Thus, TCM is a long-term approach which integrates competitive strategy, technological decisions, workforce planning and investment considerations to provide a focused and coordinated basis for sustaining long-term growth and profitability for the entire organisation.

Exhibit 3 : Cost Management : Two Opposite Views

Attributes	Traditional Cost Reduction	Total Cost Management
Goals	Specific	Competitive advantage
Scope	Narrow	Broad
Time frame	Short-term	Long-term
Frequency	Periodic	On-going
Trigger	Reaction	Proaction
Target	Employees	Entire organisational culture
Players	Management	All levels in the organisation

Source : Fisher, Westney and Gupta (1994)

### Three Indispensible Cost Management Tools

For several years, leading-edge companies around the world have applied the principles of total cost management with varying degrees of importance on its key elements. For instance, in the United States, managers in general have held floor level control activities as more useful in modern manufacturing plants as a result of the Just-in Time (JIT) production system and Total Quality Control.

In contrast, their Japanese counterparts have jockeyed their total cost management endeavour with the help of innovative management accounting tools like Target costing, Kaizen costing, giving accounting a decisive role in their organization. Other key elements of the TCM are activity-based costing, process value engineering and performance measurement. Some literature also place supply chain management within the rubric of TCM.

### Target Costing

Target costing or what the Japanese call “Genka Kikaku”, is the system that supports the cost reduction process in the developing and designing phase of a product that is intended to be produced. Broadly speaking, it is a process that starts with identification of the product that satisfies the customers’ needs on one side and the need for profit planning on the other side. Horngren et al (1991) identifies the following four building blocks of Target costing :

Step1 > Develop a product that satisfies the needs of potential customers.

Step 2 > Choose a target price based on customers' perceived value for the product and the price the customer competitors' charge, and a target operating income per unit. A target operating income per unit is the operating income that the company wants to earn on each unit of the product or service.

Step 3 > Derive a target cost per unit by subtracting the target operating income per unit from the target price.

Step 4 > Perform Value Engineering (VE) to achieve target cost. Value engineering is the systematic evaluation of all aspects of the value-chain business functions, with the objective of reducing costs while satisfying customer needs. VE is different from the control activities based on traditional standard cost accounting – it encourages the proposal of creative plans designed to reduce cost standards. For example, VE activity for direct materials may involve material change or grade change, the reduction of the number of parts or bolt or change in the shape of parts or even change in the painting method, etc.

**A text book example :** [adapted from Horngren et al

In response to price reduction by the competitor of its laptop computer by 15%, a firm responded with a 20% reduction in the price of its laptop from its current sales price of Rs. 40,000. At this price the firm expects to increase its annual sales from 15,000 units to 20,000 units. The management of the firm intends to earn an operating income of 10%.

Target cost per unit of the laptop :

Total target sales revenue = Rs. 32,000 × 20,000 units = Rs. 6,40,000,000

Target operating income = Rs. 10% × 64,000,000 = Rs. 64,000,000

Target operating income per unit = Rs. 64,00,000 ÷ 20,000 units = Rs. 3,200 per unit

Target cost per unit = Target price - Target operating income per unit = 32,000 - 3,200 = Rs. 28,800 per unit.

Target costing is widely used by the major cutting-edge companies around the world. It is the basic philosophy or the mother lode that has given rise to many other cost reduction techniques. For example, in the illustration above, Rs. 28,800 is the playing field for many a strategic management accounting techniques like value engineering, value chain analysis, activity-based costing, life-cycle costing and supply chain management. In the United States Ford, General Motors; in Europe Mercedes; and in Japan Toshiba, Panasonic, Sharp and Toyota have been using Target Costing for a long time.

The provenance of Value Engineering can be traced to GE in the United States. In the case of GE, however, they were initially aimed at reduction of parts cost without linking it to corporate target profit and target cost as they are common in Japan (Monden and Hamada, 1991).

### Kaizen Costing

Unlike Target costing, which is used to support cost reduction process in developing and designing stage of the new product, Kaizen costing is the system that supports the cost reduction process in the manufacturing of existing product. The word "Kaizen" in Japanese means "continuing improvement in personal life, home life and working life". According to Imai (1986), however, when applied to the work place, Kaizen means continuing improvement involving everyone – managers and workers alike. Monden and Hamada (1991) also reiterate Imai (1986) to suggest that Kaizen refers to continuous accumulation of small betterment activities rather than innovative improvement. Target costing and Kaizen costing, when linked together, constitute the total cost management system in Japanese companies (ibid).

It needs to be pointed out here that the Kaizen cost culture in Japan is entirely different from the Standard Costing technique which is widely followed in the United States and many other parts of the world. In Japan, unlike the standard costs (which are changed only once a year), the actual cost of the product for the latest period is the Kaizen cost budget (which is defined by Horngren et al <p.189> as "a budgetary approach that explicitly incorporates continuous improvement during budget period") which must be reduced in each successive period in order to meet the target profit. To illustrate the concept further, we consider another text book example (Horngren *et al.* p 189) that is based on Kaizen budgeting of an engineering concern producing two different types of aircraft parts.

The example below is based on direct labour hour required/budgeted, but in practice, it may include cost reduction activities which require changes in the way the company manufactures the product; changes in variable costs such as direct materials; or even in coating of, say for example, the most popular model of the car produced by the company. Kaizen cost also renders fixed cost to similar treatments.

	Budgeted Amounts (Labour Hour)	
	Regular	Heavy Duty
January - March	4.00	6.00
April - June	3.90	5.85
July - September	3.8	5.70
October - December	3.70	5.55

In Japan, the concept of Kaizen costing has been applied in a wider sense than the traditional cost control concept that requires the managers to meet cost performance standards and subsequent action when the standards are not met.

In Kaizen cost culture, companies execute cost reduction targets through daily Kaizen activities. In that sense, it has close connection with Just in Time (JIT) production system that also eliminates wastes by these daily activities. In that sense, Kaizen is more of a philosophy or organisational way of life than a mere cost reduction technique.

### Activity-based Costing

While most research in field of strategic cost management trace the roots of target costing and Kaizen costing to Japan, with the publication of Johnson and Kaplan's (1987) "Relevance Lost: The Rise and Fall of Management Accounting" in the United States it unfolded a new chapter in the field of strategic cost management. Johnson and Kaplan initially called their experience-based case study as "transaction costing", but soon this cost accounting technique earned it fame as "Activity-based Costing" (ABC) and therefrom its evolved into a management approach called "Activity-based Management" (ABM). Now most literature in the field identifies it with the acronym ABC/M, meaning "activity-based costing/management".

The rise of ABC/M can be attributed to the fact that due to the growth of multi-activity and diversified organisations (DuPont, General Electric, for example) in the early twentieth century simple cost accounting techniques of indirect cost allocation based on direct labour hours and direct labour costs were felt to be grossly inadequate. Such simple cost accounting techniques using broad averages (such as number of units produced or product volumes) rather than using a cause-effect relationship led to simultaneous under-costing and over-costing of outputs relative to their actual costs. ABC/M, by offering an opportunity for objectively measuring the economic effects of doing things, can avoid such a sub-optimal outcome.

The major assumption behind ABC is that activities consume resource and cost objects consume activities. ABC emphasises understanding which factors drive activities, and how activities relate to products (Major, 2007). Then, resource costs are assigned to activities using resource cost drivers, i.e. the factors that determine the volume of works associated with each activity (first-stage allocation base, which is same as that used in traditional method). Thereafter, activity costs are traced to cost objects using activity cost drivers (a second-stage allocation base).

ABC/M is considered as an essential tool of Total Cost Management for the following reasons :

First, it improves upon traditional cost accounting by assigning costs to the activities that generate the cost. This improves the product or service costing.

Second, ABC/M minimizes arbitrary or unbalanced allocations so that optimum cost decisions or control may be obtained.

Third, ABC/M facilitates evaluation of costs to serve certain customer, profitability of certain product, or outsourcing decisions.

Fourth and most importantly, due to decomposition of activity into separately identifiable process, ABC/M may be used to identify the costly steps that could be eliminated through better product design. On this ground, ABC complements the **Value chain analysis** and value engineering process, which is predominantly a network of activities, connected by linkage (Porter, 1990). Value chain analysis is a powerful tool for managers which help them to separate the key value added activity from the non-value added activities. This particular aspect of ABC is definitely one way by which accountants can take active role in quality improvement in their organisation right from the design to the distribution of the product. Similarly, ABC, by decomposing each part of the product cost—starting from its design, introduction, growth, decline and eventually abandonment—can effectively contribute to the **Life Cycle Costing** process in the organisation.

### Conclusion

TCM is a melting pot of many specializations, with a poor map of its boundaries, and disparate and disjointed literature. This leaves scope of ingress into the field for many. In the early twentieth century it was enriched by the developments in the field of Strategic Management Accounting. But at the backdrop of twenty-first century realities of globalization, marked by changes in technology, increasing competition from the rivals spread across the world, and a changing workforce, support from the engineering profession has become a necessity more than ever—quite justifiably. However, the need for sustainable development arising out of increasing resource crises would place far more demand on the field of Total Cost Management—necessitating continuous redefinition of its scope and extent of application. Statements like "if twentieth century belonged to Strategic Management Accounting, then twenty-first century must belong to the process value engineers" may be naïve, but process value engineers, or genetic engineering, whatever may be the name, at Monsanto has proved that it cannot be dismissed

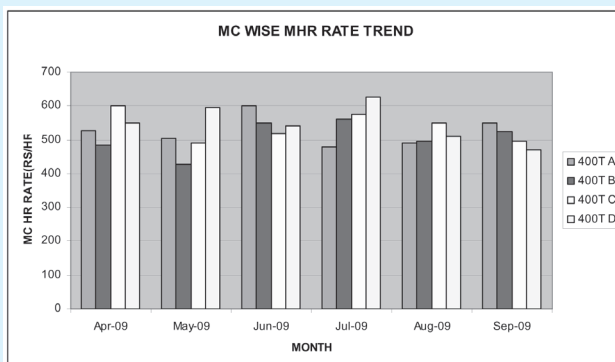
either. Engineers at Monsanto have invented a smart seed of potatoes, called “NewLeaf potato”, which is bioengineered to fight against Colorado potato beetle. Widespread use of the seed would, it is claimed, eliminate the manufacture, transportation, distribution, and aerial application of millions of pounds of chemicals and residues yearly (Margetta, 1997). Monsanto clarifies that ordinary seeds potato requires with it a supplement of 4,000,000 pounds of raw materials + 1,500 barrels of oil + 3,800,000 pounds of inert ingredients + 1,200,000 pounds of insecticide + 5,000,000 pounds of formulated products in 180,000 containers and packages + 150,000 gallons of fuel to distribute and supply in order to have the potatoes. But as a result of genetic engineering of the seed, farmers would get the crop straight away—NewLeaf Seed> Crop—thus eliminating thousands of pounds of unnecessary supplements. The moral of the story is clear : Total Cost Management is an open discipline that would always get its sustenance on fresh ideas. □

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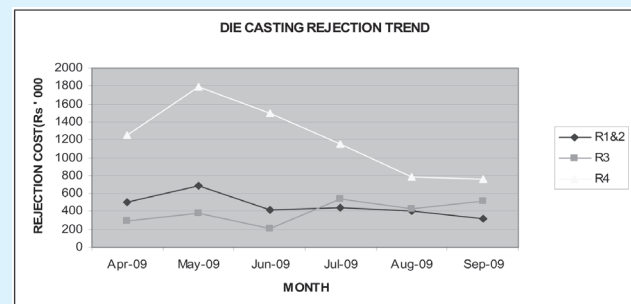
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## Machine-wise – Machine hour rate trends



## EXHIBIT 4 – Die Casting Rejection Analysis – Trends



# Salient Features on the 'Compliance Report' under the Companies (Cost Accounting Records) Rules, 2011 and the 'Cost Audit Report' under the Companies (Cost Audit Report) Rules, 2011

V. R. Kedia\*  
Dipti Kejriwal\*

Recently, the Government of India, Ministry of Corporate Affairs, Cost Audit Branch has published the following Notifications, Orders & Circular in connection with Cost Accounting Records & Cost Audit Report :

- General Circular No. 15/2011 dated 11<sup>th</sup> April, 2011 (File No. 52/5/CAB-2011) for Appointment of Cost Auditor by Companies.

- Order No. F. No. 52/26/CAB/-2010 dated 2<sup>nd</sup> May, 2011 for Cost Audit by all Companies covering 8 Products.

- Order No. F. No. 52/26/CAB/-2010 dated 30<sup>th</sup> June, 2011 in modification of the earlier order of even number dated 3<sup>rd</sup> May 2011 for Cost Audit by all Companies covering 8 Products.

- GSR No. 429 (E) dated 3<sup>rd</sup> June, 2011 prescribing The Companies (Cost Accounting Records) Rules, 2011 specially for 'Compliance Report'

- GSR No. 430 (E) dated 3<sup>rd</sup> June, 2011 prescribing The Companies (Cost Audit Report) Rules, 2011 for 'Cost Audit' for 44 Products (as on today).

1. Highlights of General Circular No. 15/2011 dated 11<sup>th</sup> April, 2011 for appointment of Cost Auditor by Companies.

- This Circular is effective from the financial year commencing on or after 1<sup>st</sup> April, 2011.

- The Cost Auditor has to submit consent letter addressed to the Board of Directors of the Company (the appointing authority for Cost Auditor u/s 233B(2) of the Companies Act, 1956) declaring that –

(i) He holds a valid certificate of practice, or All the partners of the firm are in full-time practice and holding a valid certificate of practice.

(ii) He is not disqualified under sections 233 B (5), read with section 224 and sub-section (3) or sub-section (4) of section 226 of the Companies Act, 1956.

(iii) His appointment will be in accordance with the limit specified under section 224(1-B) of the Act.

(iv) He is independent and at arms length relationship with the company.

- Appointment of Cost Auditor shall be routed through Audit Committee, if applicable.

- The Company shall file Form 23C within 90 days from the commencement of each financial year with (i) certified copy of the Board resolution (ii) certificate as stated above from the proposed cost auditor, and (iii) challan for the requisite fees.

- Appointment deemed to be approved by the Central Government unless contrary is heard within 30 days from the date of filing Form 23C.

- Company to resubmit Form 23C, if any clarification is asked for.

- Appointment deemed to be approved by the Central Government from the date of filing fresh Form 23C, with clarifications.

- The Company shall issue appointment letter to the Cost Auditor after approval by the Central Government.

- The Cost Auditor to file Form 23D online with MCA within 30 days of receiving appointment letter from the company, attaching a copy of the appointment letter with the Form.

- The Company shall disclose full particulars of the Cost Auditor along with the due date and actual date of filing of the Cost Audit Report in its annual report for each financial year.

It is opined that in case Annual Report is prepared much earlier than the finalization of the Cost Audit Report, the company should comply with this provision in the Annual Report published for the subsequent year, after the submission of the Cost Audit Report. This analogy is based on the requirements of Sec 233 B (10).

The following information may be disclosed as a separate Para in the Director's Report in the Annual Report to comply with this para :

Name of the Cost Auditor

Product and Factory covered by the Cost Auditor

\* Practicing Cost Accountants, Mumbai

Financial Year for which Cost Audit Report is submitted

Due date of the Filing of the Cost Audit Report

Actual Date of Filing of the Cost Audit Report

● **Penalty provisions for contravention of this circular as per Sections - 209(5), 209(6) 209(7), 233B(11), 642(5) and 642(7) of the Companies Act, 1956.**

● **Form 23C** – In case of appointment of Cost Auditor in the name of partnership firm, registration no. of the firm is to be shown in sr. 4(d).

● **Form 23D** – Before e-filing of Form 23D by the Cost Auditor, he shall collect the following information/ document from the company –

– A copy of Form 23C efiled by the company.

– A copy of SRN of Form 23C.

– A copy of appointment letter issued by the company to the Cost Auditor, subsequent to receipt of approval from CAB for appointment of Cost Auditor. (a copy of this letter shall be attached with Form 23D)

– Under sr. 5(i) scope of audit: The Cost Auditor can mention the name of 'product' & the 'location' of the factory covered for Cost Audit.

2. Highlights of Order No. F. No. 52/26/CAB/-2010 dated 2<sup>nd</sup> May, 2011 for Cost Audit by all Companies covering 8 Products

● **Products covered** – Bulk Drugs, Formulations, Fertilizers, Sugar, Industrial Alcohol, Electricity Industry, Petroleum Industry, and Telecommunications.

● **Applicability** – As on the last date of the immediately preceding financial year :

(i) Net worth exceeds Rs. 5 crores, or

(ii) Aggregate value of the turnover from sale or supply of all products or activities exceeds Rs.20 crores, or

(iii) The Company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

● **Applicable Rules** –

(i) Product/Industry wise Cost Accounting Records Rules for companies coming under applicability clause will continue.

(ii) Cost Audit will be compulsory for all companies which are coming under applicability criteria under this Order.

Henceforth, Cost Audit Branch will not issue Cost Audit Orders to individual companies, which are subject to applicability clause of this Order. Such companies will be automatically covered for Cost

Audit. Further, all companies for which individual Cost Audit Orders have been issued for such products shall continue to comply with the said orders.

● **Effective Date** – This Order is effective from the financial year commencing on or after 1<sup>st</sup> April, 2011.

● **Form of the Cost Audit Report** –

(i) New Form as per The Companies (Cost Audit Report) Rules, 2011 for Cost Audit Report submitted on or after 1<sup>st</sup> April, 2012, irrespective of the financial year to which it relates.

(ii) Existing Form as per the Cost Audit Report Rules, 2001 for Cost Audit Report submitted on or upto 31<sup>st</sup> March, 2012.

3. Highlights of Order No. F. No. 52/26/CAB/-2010 dated 30<sup>th</sup> June, 2011 for Cost Audit by all Companies covering 8 Products

● **Products covered** – Cement, Tyres and Tubes, Steel, Paper, Insecticides\*, Glass, Paints & Varnishes, Aluminium.

\*Includes all classes of Insecticides as defined under clause (e) of Section 3 of the Insecticides Act, 1968 (46 of 1968) and included in the schedule annexed to the said Act and as amended from time to time.

Intermediate products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.

Scope & definition of products covered shall be as per relevant Chapter Heading of the Central Excise Tariff Act, 1985.

● **Applicability** – As on the last date of the immediately preceding year -

(i) Aggregate value of the turnover from sale or supply of all products or activities exceeds Rs. 100 crores, or

(ii) The Company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

● **Applicable Rules** –

(i) Product/Industry wise Cost Accounting Records Rules are not applicable to such companies, but Generally Accepted Cost Accounting Principles (GACAP) issued by the ICWAI shall be followed.

(ii) Cost Audit compulsory for all companies which are coming under applicability criteria under this Order.

Henceforth, Cost Audit Branch will not issue Cost Audit Orders to individual companies, which are subject to applicability clause of this Order. Such

companies will be automatically covered for Cost Audit. Further, all companies for which individual Cost Audit Orders have been issued for such products shall continue to comply with the said orders.

● **Effective Date** – This Order is effective from the financial year commencing on or after 1<sup>st</sup> April, 2011.

● **Form of the Cost Audit Report** –

(i) New Form as per The Companies (Cost Audit Report) Rules, 2011 for Cost Audit Report submitted on or after 1<sup>st</sup> April, 2012, irrespective of the financial year to which it relates.

(ii) Existing Form as per the Cost Audit Report Rules, 2001 for Cost Audit Report submitted on or upto 31<sup>st</sup> March, 2012.

4. Highlights of GSR No. 429 (E) dated 3<sup>RD</sup> June, 2011 prescribing The Companies (Cost Accounting Records) Rules, 2011

● **Applicability** –

(i) All Companies engaged in the production, processing, manufacturing, or mining, as defined in the 'Records Rules'.

Rule 2(j)(k)(l)(o) 'Definition' of covered activities does not leave virtually anything outside the purview of the applicability of the 'Compliance Report'. Can the CAB prepare & notify the negative list of Products not covered by the Rules, and then the other remaining Products will be automatically considered as covered by the Rules?

It is not clear as to whether companies covered by cost audit order issued so far and additional companies getting covered under cost audit vide MCA, CAB order dated 30th June, 2011 will be also subject to 'Compliance Report' under these Rules.

It also needs clarification as to whether companies carrying on only and/or in addition to manufacturing activity, trading activities related to manufacturing carried out by outside party on job work basis (loan licence) or P2P arrangements in case of Pharma industry etc. will be covered by these Rules.

(ii) As on the last date of the immediately preceding financial year:

(a) Net worth exceeds Rs. 5 crores, or

(b) Aggregate value of the turnover from sale or supply of all products or activities exceeds Rs. 20 crores, or

(c) The Company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

The definition of 'Turnover' means 'gross turnover', which indicates that sales should be

inclusive of Excise duty, ST, VAT & other Government levies.

● **Exemptions** –

(i) A company which is body corporate governed by any special Act;

(ii) Bulk Drugs, Formulations, Fertilizers, Sugar, Industrial Alcohol, Electricity Industry, Petroleum Industry, Telecommunications.

● **Supersession of Product wise Cost Records Rules** – These Rules supersede 36 Cost Accounting Records Rules except for 8 Products mentioned above.

● **Maintenance Of Records** –

(i) Every company including all units/ factories and branches,

(ii) Cost Records to be kept on regular basis say monthly/ quarterly/ half-yearly/ annually so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products & activities. However, it is not necessary to prepare periodic Cost Sheets for various products.

Definition of the word 'Product Group' is creating more confusion by the use of the words, such as – same raw material, same or similar usage or application. e.g. In case of Pharma industry whether medicine wise separate cost sheet will be required for each type of tablet – strength wise (25 mg, 50 mg etc.) and pack wise, or they can be combined under 'product group' such as – tablet, capsule, liquid, injection and combining all types of medicine, strength and pack size?

(iii) Since, product-wise Cost Accounting Records Rules have been abolished for 36 products, cost records shall be maintained in accordance with the Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards issued by the ICWAI.

It is suggested that the Institute should prescribe GACAP covering, 'What constitutes Cost Records?' Further, CAS have been notified for 13 topics only. Other important topics should be notified soon.

(iv) Cost Records shall also cover non-financial parameters for control purpose.

(v) Variation in figures at various places in the Cost Records & the Compliance Report shall be clearly indicated and explained.

(vi) Profit as per Cost Records shall be reconciled with the annual financial audited statement.

(vii) Cost Records shall be preserved for 8 financial years. The Institute shall prescribe the 'type' of cost records that shall be preserved for 8 years.



● **Compliance Report –**

(i) Every Company which is covered by these Rules shall submit a Compliance Report (Form – B).

(ii) For financial year commencing on or after 1<sup>st</sup> April, 2011.

(iii) Duly certified by a Cost Accountant (either in practice or a permanent employee of the Company having valid membership of the Institute)

(iv) Annexure to the Compliance Report is a part of the Compliance Report.

● **Time Limit for submission of the Compliance Report –** It shall be submitted within 180 days from the close of the company's financial year.

● **Authentication of Annexure to the Compliance Report –** The Annexure as certified by the Cost Accountant shall be approved by the Board of Directors before submitting to the Central Government.

● **Form of The Report –**

**FORM-A** For e-filing with the Central Government. It is to be prepared for the 'Company as a whole' covering all products & activities.

Part I – General Information with Quantitative information with amount for Net Sales.

Part II – To be verified and digitally signed by MD or Director or Manager or Secretary.

Attachment – Compliance Report including Annexure to C.R. duly signed by the Cost Accountant.

**FORM – B Compliance Report**

It is to be prepared for the 'Company as a whole' covering all products & activities.

However, product-wise & unit-wise Cost Statements shall be prepared & kept in the Company.

There is a provision for stating material deficiencies & giving qualified report & also providing observations & suggestions by the Cost Accountant in the Compliance Report.

**Annexure to the Compliance Report**

It is to be prepared for the 'Company as a whole' covering all products & activities.

It consists of Para 1 to 3. Para 2 on quantitative information has to be reproduced in Form- A.

● **Penalties –**

(i) Cost Accountant – fine up to Rs. 5,000/-.

(ii) Company and Officer in default - imprisonment upto six months or fine upto Rs. 10,000/- or both.

5. Highlights of GSR No. 430 (E) dated 3<sup>rd</sup> June, 2011 prescribing The Companies (Cost Audit Report) Rules, 2011.

● **Applicability –**

(i) Every Company for which Cost Audit had been specifically ordered on or before 2<sup>nd</sup> May, 2011 (44 Products), and

(ii) Every company which has been recently covered for cost audit under Orders dated 2<sup>nd</sup> May, 2011 and 30th June 2011 (16 Products), and

(iii) Every company in respect of which audit of the cost records will be ordered under sub-section (1) of section 233B of the Act.

(iv) In case of Industries, such as – Chemical (44 Products), Engineering (7 Products), Motor Vehicle (6 Products), Mining & Metallurgy (14 Products) are specified for coverage of Cost Records Rules. However, vide Notification No. GSR 430 dated 3<sup>rd</sup> June, 2011 these individual Records Rules have been abolished. Therefore, it is opined that in case original Cost Audit Order has been issued as, say 'Chemical' as name of the product covered for Audit, then all types of chemicals which may go beyond 44 types will be covered by the Audit Order. Same will be the situation for other products stated above.

**Procedure For Submission of the Cost Audit Report**

The Cost Auditor shall submit the Cost Audit Report (Form II) along with Annexure to the Cost Audit Report to –

(i) the Central Government in the prescribed form, and

(ii) a copy to the Company

Report submitted upto 31 March, 2012 will be in the Form prescribed under the Cost Audit Report Rules, 2001

Report submitted on or after 1<sup>st</sup> April, 2012 will be in the Form prescribed under Companies (Cost Audit Report) Rules, 2011 irrespective of the financial year of the Company.

The Cost Auditor shall also furnish Performance Appraisal Report (Form III) to the Board / Audit Committee in the prescribed form.

Cost Auditor to give clarifications, if any required by the Central Government within 30 days.

**Time Limit for Submission of the Report**

Cost Auditor shall submit his Report within 180 days from the close of the Company's financial year to which the report relates.

However, there is no provision for the time limit by which the company shall make available to the Cost Auditor, all Cost Records, Cost statements & Annexure to the Report duly completed.

### Authentication of Annexure to the Cost Audit Report

Annexure shall be approved by the Board of Directors before submitting to the Government by the Cost Auditor.

The Annexure duly audited by Cost Auditor should be signed by the Secretary and at least one director. If there is no secretary, the same to be signed by at least two directors.

#### ● Form of the Cost Audit Report –

(i) **Form-I** For e-filing with the Central Government. It is to be prepared for the Company as a whole covering all products & activities.

Part I-General Information about the company and the Cost Auditor (no figures have been asked for)

Part II-Attachment – The Cost Audit Report along with Annexure to the Cost Audit Report.

(ii) **Form-II - The Cost Audit Report** It is to be prepared for the Company as a whole covering all products & activities.

The Cost Auditor has to certify about the adequacy of Internal Audit of Cost Records.

However, product-wise & unit-wise Cost Statements shall be prepared & kept in the Company.

The Cost Auditor shall submit Performance Appraisal Report to the company, on the prescribed Form

There is a provision for indicating material deficiencies & giving qualified report & also providing observations & suggestions by the Cost Auditor in the Cost Audit Report.

(iii) Annexure to the Cost Audit Report (Form - II)

**Para 1.** General information (for the Company as a whole)

**Para 2.** Cost Accounting policy (for each product group separately)

Para 2(1): 'requirements' of Cost Records is not prescribed under the 'Compliance Report' i.e. under Companies (CAR) Rules, 2011. Therefore, it is not clear as to how to certify that the Cost Accounting System is adequate.

Para 2(3): Since all these paras are prepared and signed by the company, if any comment is made in this para regarding Budgetary Control system by the cost auditor, the Company may not like to attest the same.

There is no provision in the Cost Audit Report for giving observations and comments by the cost auditor on the cost accounting system/policy etc.

**Para 3.** Product group details (for the Company as a whole) – figures for 1 year

In this Para production quantity & sales quantity data is not asked for, which is prescribed under the Compliance Report.

**Para 4.** Quantitative information (for each product group separately) – figures for 2 year

A number of clarifications are required for filling up this Para. Such as –

Sr. 1(b) Capacity enhanced ... What is to be shown here, since Sr. 1(a) already includes this figure.

1(c) Capacity available through leasing ... What does it mean?

1(d) Capacity available through loan licence ... How outside party's factory capacity can be made available and included here?

2(c) Produced on loan licence ... Does it mean **manufactured by others** under job work for the company.

**Para 5.** Abridged Cost Statement (for each product group separately) – figures for 1 year

Proper interpretation is required for 'product group' for different types of Industries.

Further, treatment of Export benefit is not mentioned here. Maybe, it can be added with Net sales realization.

**Para 6.** Operating ratio analysis (for each product group separately) – figures for 3 years

**Para 7.** Profit reconciliation (for the Company as a whole) – figures for 3 years

Sr. No. 1(b) Costing profit for unaudited product groups – How can auditor certify for unaudited data? Further, the company has to develop a system to prepare costing profit for unaudited product groups.

Sr. No. 4 to Sr. No. 7 This information can be provided for audited product groups only.

**Para 8.** Value addition and distribution of earnings (for the Company as a whole) – figures for 3 years

Sr. No. 1 Gross sales (excluding returns): Sales returns shall not be reduced from gross sales. (If so, it will be wrong interpretation)

Sr. No. 5 WIP stock should also be adjusted under this item.

Sr. No. 6 'Cost of bought out **inputs**' should be treated like bought out materials & services otherwise, Sr. (c)(d) can not be included under this.

### Distribution of Earnings to

Sr. No. 3 Depreciation and PAT have to be shown here.

Sr. No. 4 Only corporate income tax and dividend tax should be shown here.

Sr. No. 5 Others: Interest (net of income) should be shown here.

**Para 9.** Financial Position and ratio analysis (for the Company as a whole) – figures for 3 years.

A.3 Loans: Since Schedule VI of The Companies Act, 1956 has been amended; its grouping is also changed. Therefore, calculation of loans (secured & unsecured) should be done accordingly.

B.3 Net Sales: It should be net of sales returns and inclusive of export benefits and exclusive of government levies.

Note (2) **Capital work-in-progress** should be adjusted while calculating net worth.

**Para 10.** Related party transactions (for the Company as a whole) – figures for 1 year

‘Transfer price’ shall be inclusive of government levies.

To furnish address of related party and information about each sale / purchase separately will create voluminous data base. Therefore, it may be condensed as per the requirements of the Annual Accounts of the Company.

**Para 11.** Reconciliation of indirect taxes (for the Company as a whole) – figures for 1 year

The logic behind asking for figures for 1 year, 2 years, 3 years in different paras is not clear. It could have been better to have called figures for 2 years/3 years uniformly for fruitful comparison & consistency.

(iv) FORM – III - The Performance Appraisal Report –

It is not clear as to whether it is to be prepared for the ‘company as a whole’ since there is no mention of

name of the product and location of the factory in this Form.

Further, it will be going far beyond concept of ‘audit’ i.e. verification of cost accounting data.

Since no definitive procedure / step by step process to arrive at analysis of various items is mentioned in this Form, it is the responsibility of ICWAI to prepare guidelines and the methodology wherein various parameters to be considered under each area is explained.

● **Penalties –**

(i) Sections - 209(5),209(6) and 209(7) - Failure to keep proper books of accounts including cost account records

Persons Responsible - Managing Director / Manager / Every Director, if MD or Manager is not there and “Officer who is in default”. For each offence - imprisonment upto six months or fine upto Rs. 10,000/- or both

(ii) Section - 233B (11) - Failure to comply with Cost Audit provisions

Company - Fine upto Rs. 5,000/- - “Officer who is in default” - Imprisonment upto three years or fine upto Rs. 50,000/- or both.

**6. The Comparative Analysis** of MCA Order No. 52/26/CAB/-2010 dated 2<sup>nd</sup> May, 2011, No. 52/26/CAB/-2010 dated 30<sup>th</sup> June, 2011, and Notifications No. 429 (E) & 430 (E) dated 3<sup>rd</sup> June, 2011 is made as per **Appendix.**

**Comparative Analysis of Orders/Notifications of MCA, during May’ 11 & June ’11 regarding Cost Records & Cost Audit**

Cir/Not. No. & Dt.	Products	Applicability	Applicable Rules	Who can Certify/ Audit	Effective Dt.	Report Format
52/26/CAB-2010 Dt. 2.5.2011	<ul style="list-style-type: none"> <li>• Bulk Drugs</li> <li>• Formulations</li> <li>• Fertilizers</li> <li>• Sugar</li> <li>• Industrial Alcohol</li> <li>• Electricity Industry</li> <li>• Petroleum Industry</li> <li>• Telecommunications</li> </ul>	<ul style="list-style-type: none"> <li>• Net Worth exceeding Rs. 5 Crores, or</li> <li>• Turnover exceeding Rs. 20 Crores, or</li> <li>• Equity or debt securities listed or in the process of listing on any stock exchange in or outside India.</li> </ul>	<ul style="list-style-type: none"> <li>• Cost Audit Compulsory for all Companies which are coming under applicability clause.</li> <li>• Product/Industry wise Rules are applicable to such companies.</li> </ul>	Cost Accountant in Practise	Effective from F.Y. commencing on or after 1.4.2011	New Form I for e-filing (without data) Attachments : <ul style="list-style-type: none"> <li>• Form II – Cost Audit Report</li> <li>• Ann.to CAR (Para 1 to 11)</li> <li>• Form III for Company Management</li> </ul>
52/26/CAB-2010 Dt. 30.6.2011 modifying order dated 3.5.2011	<ul style="list-style-type: none"> <li>• Cemento Tyres &amp; Tubeso Steelo Paper</li> <li>• Insecticideso Glasso</li> <li>• Paints &amp; Varnisheso</li> <li>Aluminium (including intermediate products and articles or allied products)</li> </ul>	<ul style="list-style-type: none"> <li>• Turnover exceeding Rs. 100 Crores, or</li> <li>• Equity or debt securities listed or in the process of listing on any stock exchange in or outside India.</li> </ul>	<ul style="list-style-type: none"> <li>• Cost Audit Compulsory for all Companies which are coming under applicability clause.</li> <li>• Product/Industry wise Rules are not applicable to such companies but Generally Accepted Cost Accounting Principles (GACAP) issued by the ICWAI shall be followed.</li> </ul>	Cost Accountant in Practise	Effective from F.Y. commencing on or after 1.4.2011	New Form I for e-filing (without data) Attachments – <ul style="list-style-type: none"> <li>• Form II – Cost Audit Report</li> <li>• Ann.to CAR (Para 1 to 11)</li> <li>• Form III for Company Management</li> </ul>

## RECENT DEVELOPMENTS FOR THE PROFESSION

Cir/Not. No. & Dt.	Products	Applicability	Applicable Rules	Who can Certify/Audit	Effective Dt.	Report Format
The Companies (Cost Accounting Records) Rules, 2011 GSR 429(E) Dt. 3.6.2011	All Companies producing, processing, manufacturing or mining, as defined in the Records Rules are covered by these Rules.	<ul style="list-style-type: none"> <li>• Net Worth exceeding Rs. 5 Crores, or</li> <li>• Turnover exceeding Rs. 20 Crores, or</li> <li>• Equity or debt securities listed or in the process of listing on any stock exchange in or outside India.</li> </ul> <p><b>except 8 products-</b></p> <ul style="list-style-type: none"> <li>• Bulk Drugs</li> <li>• Formulations</li> <li>• Fertilizers</li> <li>• Industrial Alcohol</li> <li>• Electricity Industry</li> <li>• Petroleum Industry</li> <li>• Telecommunications</li> </ul>	Product/Industry wise Rules are not applicable to such companies but Generally Accepted Cost Accounting Principles (GACAP) issued by the ICWAI shall be followed.	Cost Accountant employed in the Company & who is a Member of ICWAI or Cost Accountant in Practise	Effective from F.Y. commencing on or after 1.4.2011	New Form A for e-filing (with data) Attachments - <ul style="list-style-type: none"> <li>• Form B - Compliance Report</li> <li>• Ann.to CR (Para 1 to 3)</li> </ul>
The Companies (Cost Audit Report) Rules, 2011 GSR 430(E) Dt. 3.6.2011	44 Products	<ul style="list-style-type: none"> <li>• Every Company for which an Audit of the Cost Records has been ordered by the Central Govt. u/s. 233B(1), and</li> <li>• Every Company which has been recently covered for Cost Audit vide Government Order No. 52/26/CAB-2010 Dt. 2.5.2011 &amp; 3.5.2011 (14 Products)</li> </ul>	Industry wise Rules are not applicable to such companies but Generally Accepted Cost Accounting Principles (GACAP) issued by the ICWAI shall be followed, except for 8 Products (Bulk Drugs, Formulations, Fertilizers, Sugar, Industrial Alcohol, Electricity Industry, Petroleum Industry, Telecommunications)	Cost Accountant in Practise	Cost Audit Report Submitted on or after 1.4.2012 (normally for the financial year 2011-12)	New Form I for e-filing (without data) Attachments - <ul style="list-style-type: none"> <li>• Form II - Cost Audit Report</li> <li>• Ann.to CAR (Para 1 to 11)</li> <li>• Form III for Company Management</li> </ul>

### ANNOUNCEMENT

The Management Accountant – August, 2011 will be a special issue on **‘RISK MANAGEMENT IN FINANCIAL SERVICES’**. Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to [rnj.sumita@icwai.org](mailto:rnj.sumita@icwai.org), followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15<sup>th</sup> July, 2011.

### ANNOUNCEMENT

The Management Accountant – September, 2011 will be a special issue on **‘CMAs IN HOSPITALITY MANAGEMENT’**. Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to [rnj.sumita@icwai.org](mailto:rnj.sumita@icwai.org), followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15<sup>th</sup> August, 2011.

# Capital Budgeting and Role of CMAs

V. Gopalan\*

*'Capital Budgeting', also known as Investment appraisal, is the scientific process of identifying, analyzing, selecting and implementing investment projects with returns expected over a long term. It is immaterial whether the long term investment is for organic growth or inorganic growth. In view of their professional expertise and competence, CMAs have been very successful in many organizations when it comes to evaluating the 'capital budgeting' at its every stage of implementation.*

**C**apital Budgeting It is most crucial for any organisation before a decision is taken towards long term investments in the nature of any new project or expansion project or modernization project or even a diversification project. It can even be an investment towards Research and Development involving capital expenditure.

Accounting rate of return, Pay back period, Return on Investment, Net present value, Profitability index, Internal rate of return, Market Rate of Return, Economic Rate of Return, Domestic Resource Cost are the various techniques used by the capital budgeting team. It is also to be remembered that it is 'cash flow' and not 'profit' which is more critical in capital budgeting. Both 'net investment' at investment stage and 'net cash flows' each year thereafter are important to determine the ultimate success of the investment.

The value of an asset, whether financial or real, depends on the discounted value of cash flows over a predetermined period of time, covering also the explicit forecast period. As Capital Budgeting deals with the valuation of real assets, we need to necessarily take into account the Cash outflows at Period 'Zero' and net cash inflows over a specified time horizon.

There are situations in some organizations where the capital assets are lesser in value compared to the value of total assets due to larger proportion of working capital. Nevertheless, Capital Budgeting is extremely important as capital assets are long-term and any mistake in the capital budgeting process will have impact for a longer period of time.

Unless the project is for social reasons with clear funding available, if the investment is unprofitable in the long run, it is unwise to invest in it now. Vast sums of money will get eroded if the investment turns out to be wrong or uneconomic. The timing of cash flows is important in new investment decisions and the return has a bearing also on the inflation rate.

A capital investment project is different from routine capital expenditures if such projects are relatively large and a significant period of time elapses

between the investment outlay and the receipt of the benefits.

**Therefore, Capital Budgeting implies :**

- (a) there is a need for a long term investment strategy for the organization;
- (b) the new investment opportunities have to match the strategy evolved;
- (c) alternatives have to be worked out to meet contingencies;
- (d) the economic evaluation of investment proposals to decide either for accepting or rejecting investment projects;
- (e) proper estimation and forecasting of current and future cash flows is essential to study the success by comparing the actuals with the budgeted estimates;
- (f) putting in place a suitable administrative framework for effective decision making based on the information;
- (g) expenditure monitoring and management as a crucial aspect of project execution, etc.

The 'capital budgeting' is to decide the capital investment and it has the following factors :

**Project size :** There is no issue with respect to small projects as they can be decided by departmental managers. When it comes to the decision regarding medium and large investments, a careful study and analyses of all aspects are essential as it involves Board of Directors' approval and even the consent of the shareholders.

**Benefit to the organization :** Capital investments benefit the organization in many ways such as either immediate or near immediate increase in cash flow, mitigation of risks by capturing a position in the industry, employee motivation, price advantage.

**Degree of dependence :** The capital expenditure can be either mutually exclusive projects or complementary projects or substitute projects or combination of any of these.

\* FCA, AICWA, ACS, Director, Janhar Management Consultancy Pvt Ltd, Chennai

### Relevance of 'time value of money' in capital budgeting

Capital budgeting decisions have to be based on cash flows that are adjusted for the 'time value of money'. The time value of money recognizes that any amount received or spent in the future is less valuable than received or spent in the present. Calculations such as the internal rate of return, net present value, and excess present value include adjustments for the time value of money. In the normal accrual method of accounting, revenues and expenses are reported when they are earned and expenses are matched to the periods of the revenue and, further, the revenue and expense amounts are not adjusted for the time value of money. This aspect has to be kept in mind and suitably factored while analyzing the capital investment returns.

### Payback period

Despite the limitations of the payback method, it is the method most widely used in practice. The reasons are: (1) it is a time tested method for ranking projects with liquidity constraints and requiring repayments faster; (2) it is appropriate in situations where risky investments are made in uncertain markets that are subject to fast design and product changes or where future cash flows are particularly difficult to predict; (3) the method is often used in conjunction with NPV or IRR to identify projects which are worthy of further investigation; (4) it is easily understood by all levels of management; (5) it provides an easy assessment as to how quickly will the initial investment be recovered by incremental profitability.

CMA's are better placed compared to other professions to evaluate these aspects and to study the return on capital investments as it is more to do with profitability than mere profit.

CMA's play vital role in Capital Budgeting to :

- Establish cost guidelines and benchmarks and to assist in budget development;
- Make most efficient use of all the available information for budget development and monitoring;
- Clarify to the budget team the funding process and to align project types with funding sources;
- Eliminate low value tasks in the entire process by constantly evaluating the implementation;
- Develop tools for analysis and decision making at each stage;
- Ensure better correlation and interrelation between capital and operating budgets;
- Constantly improve the process to monitor time spent on non-value added tasks;
- Act as a guide to all those involved in the process at every stage;
- Assess cost benefit analysis at various time intervals; etc.

As may be seen from the above, unlike the role of accountants to evaluate various capital budgeting techniques in just financial terms such as IRR, Payback, ROI, Discounted cash flow etc., the CMA's play a crucial role at each stage of the project implementation to ensure the long term viability and the constant profitability of the projects undertaken. □

No.402/92/2006-MC (14 of 2011)

Govt. Notification

**Government of India/Ministry of Finance  
Department of Revenue  
Central Board of Direct Taxes**

New Delhi, dated the 23 June, 2011

### PRESS RELEASE

The Central Board of Direct Taxes has notified the scheme exempting salaried taxpayers with total income up to Rs.5 lakh from filing income tax return for assessment year 2011-12, which will be due on July 31, 2011.

Individuals having total income up to Rs.5,00,000 for FY 2010-11, after allowable deductions, consisting of salary from a single employer and interest income from deposits in a saving bank account up to Rs.10,000 are not required to file their income tax return. Such individuals must report their Permanent Account Number (PAN) and the entire income from bank interest to their employer, pay the entire tax by way of deduction of tax at source, and obtain a certificate of tax deduction in Form No.16.

Persons receiving salary from more than one employer, having income from sources other than salary and interest income from a savings bank account, or having refund claims shall not be covered under the scheme.

The scheme shall also not be applicable in cases wherein notices are issued for filing the income tax return under section 142(1) or section 148 or section 153A or section 153C of the Income Tax Act 1961.

# Combating tax cascading : Parallel tax systems— Cenvat Credit Vs Vat Credit

P. Ravindran\*

The quintessential and distinguishing characteristic of a value-added tax system as compared to other competing tax designs is the provision for tax credits on inputs and capital goods. Tax credit differentiates a value-added tax from other transaction-based indirect taxes. It goes without saying that the efficacy of a value-added tax is directly proportional to the nature, extent and application of the input tax credits. The lesser the tax credit allowances are, the greater will be the departures from the core principles of anti-tax cascading. After all, the justification for bringing on a system of Vat is the agreed need to avoid collecting tax on tax under the basic paradigm that taxes should be levied and collected only once. The tax credit is a guarantee against tax-cost cascading. The tax payers put up with the considerably onerous legal compliances in the form of numerous rules, procedures, forms, and tax returns plus the intrusive tax audits and a larger tax bureaucracy and their only return for all the troubles they endure in the hands of the tax administration is the legitimate prospect that the input tax credits would enable them to neutralize the input tax costs.

The journey towards and a search for a tax cost-neutralizing design in the country began with the so-called “*Proforma credit procedure*” for certain classes of products and assesseees in the central excise arena, around the year 1979. An input tax credit system worth its name was not in place till March, 1986. The introduction of a modified value-added tax (MODVAT) in that year was the first attempt at transforming stand-alone indirect taxes in the country wholesale into a value-added tax. The MODVAT was considerably extended to capital goods in the year 1994. After several reforms in design and procedure, the system settled in the shape of the Cenvat credit Rules, 2004, integrating goods and services.

At the states’ levels, the Center’s own tax reforms were an alien subject until the central government decided to nudge the states in the path of the cenvat credit. The result was the over-hauling of the state

Sales tax Acts into the VAT Acts beginning in the first decade of the twenty-first century. It was regrettable that the Union government which was instrumental in forcing the state governments towards the VAT system failed to negotiate and establish a homogeneous tax credit system for the country as a whole which would have largely smoothed the way for the introduction of the GST much earlier. Nevertheless, the transformation of sales tax acts into Vat acts was a major relief for the trade and industry. This of course is by no means sufficient. It needs to go far enough. The divergences in Cenvat and Vat credits cause confusion and mis-match in tax adjustment impacting business pricing. Add to this the differences in tax rates, say, as between 4 % and 12.5% in Vat tariff schedules in several state vat laws. Thus, the tax credits can vary considerably across products and services as well as across tax geographies. In this article, we will attempt a comparative analysis of the broad (though by no means complete) range of the note-worthy features of the cenvat and vat credit systems. The difficulties surrounding the definition of input services are not discussed here since the Vat laws cannot cover the input services.

Table of tax-credit comparison

Sl No.	Distinguishing characteristic	CENVAT credit	VAT credit
1	Primary legal provision	No coverage under an Act of Parliament. Subordinate legislation in the form of CENVAT Credit Rules, 2004.	Coverage mainly under the respective State VAT Acts together with procedural rules.
2	Documentary requirement for credit eligibility	Input tax invoice in the name of the assessee.	Input tax invoice in the name of the dealer.
3	Which copy of the tax invoice	No particular copy prescribed. Photocopies are generally not accepted.	Original copy of the invoice is required. Departmental permission is required for taking credit on other carbon copies. Photocopy is not permitted.
4	Time limit for taking the credit.	No time limit prescribed.	Time limit prescribed.

\* B.Sc, PGDM (Germany), M.L., (PhD), Advocate—Indirect taxes & IPRs

Sl No.	Distinguishing characteristic	CENVAT credit	VAT credit
5	Time limit for using up the credit.	No time limit prescribed.	Time limit prescribed. Generally, within six months from the date of accrual of the credit for inputs and a maximum of three years for capital goods.
6	Refund of unutilized tax credit.	No refund except for export situations.	Refund for export cases as well as for unutilized credits at the end of the year.
7(a)	Availability on inputs.	Yes, barring a small negative range.	Yes, with a few prohibitions.
(i)	Nexus with manufacture	Required. Trading in cenvat credit not permitted, except for first/second stage dealers.	Use in manufacture as well as for trading permitted.
(ii)	Deployment and use outside the registered factory/premises	Not permitted.	No particular condition seen generally. But non-trade use deployment outside the registered premises not permissible.
(b)	Availability on capital goods.	Yes	Yes
(i)	Restrictions on credit-taking on capital goods	Immediately available and no restriction that the capital goods should be put to use before taking the credit.	Credit can be used only after start of commercial production and should be exhausted within three years.
(ii)	Deployment and use of capital goods outside the factory.	Permitted for job work.	No specific condition.
(c)	Availability of input services.	No specific condition.	No statutory provisions as service tax at present is a union subject.
8.	One to one ratio between input and output.	Permitted.	Not required.
9.	Exclusive use in exempted categories.	Not required Credit not permitted	Credit not permitted
10.	Partial use in exempted categories.	Credit permitted but reversal of credit is required as per options and formulas prescribed in the rules.	Proportionate credit is required to be reversed.
11.	Credit on office equipment.	Not permitted	Not permitted.
12.	Whether credit taken requires due process for rejection and recovery by the tax department.	Yes	Yes

Sl No.	Distinguishing characteristic	CENVAT credit	VAT credit
13.	Penal provisions for 'wrong' credits.	In place	In place
14.	Purchase tax credit.	No provision for purchase tax recovery in indirect tax laws.	Credit for purchase tax collected permitted.
15.	Works contract coverage.	Works contract service tax credit pertaining only to five classes of works contracts permitted.	Works contract tax credit generally not permitted to be taken.
16.	Input tax credit on Inter-state sales.	Permitted without any restriction.	Permitted only for C form sales.
17.	Whether permission required for claiming tax credit.	No permission required, except for storage of credit materials outside the registered factory/premises	No permission required.
18.	Provision for job work on tax credit materials.	Separate and elaborate provisions exist	No particular provisions in most state vat laws

The above comparison clearly shows that there are considerable differences of significant value impact to the tax payers between the CENVAT credit and the VAT credit. The business cost could be negatively influenced, for example, as follows:

### Capital goods

Both Cenvat credit and Vat credit provisions permit only 50% of the tax credit in the year of receipt and the remaining can be taken in any subsequent year under cenvat credit, while for Vat credit purposes, there is an outer time-limit of three years within which the residual credit has to be availed. The restriction of 50% is by itself a detracting factor from the principle of consumption type, destination-based Vat. It is not capital investment-friendly. It penalizes a green-field project more than a brown-field business which would be up and about, enjoying and exhausting the tax credits already taken. While this is the basic picture and the list of capital goods is almost common between the two credit systems, the Vat credit law is unduly restrictive and it generally permits *usage* of the tax credit only on the start of the commercial production. The Cenvat credit has no such bar. The tax credit under cenvat regime is instantaneous and upfront. The longer the tax credit remains in the pipeline without usage, the greater the opportunity cost to business and industry.



The tax credit laws should aim at ameliorating procedurally caused credit stagnation and facilitate a speedier turn around in tax credit usage or if such a thing were impossible to obtain in effect, sanction the credit refund so that tax cost neutralization is in full play and is not a lip service to combating tax cascading.

### Inputs

The Cenvat credit laws and the departmental implementation go in opposite directions. While the definition of inputs appears liberally worded in the law and would include capital goods also when these are not exhausted in the definition of capital goods, the department on the ground seeks a clear and direct connection between the input and the manufacture of the final product which often amounts to asking for the moon. Here the cenvat credit is business-unfriendly for another reason as well. It does not allow manufacturers to trade openly in cenvat input materials by taking and adjusting the tax credit on buying and selling of the goods. Manufacturers are forced to take separate dealer registrations to do this and from separately demarcated premises which is often unviable. The tax credit law has the effect of hindering business freedom.

### Time-limits

The differential time limits between the two tax-credit systems are a dampener and work against business tax cost neutralization. Missed tax credits under VAT systems are a real problem in as much as obtaining departmental permission is subject to statutory time limits and otherwise also, 'transaction costs' of obtaining the go-ahead from the departments are a factor to reckon with.

### Refund of unutilized tax credits

The lack of statutory provisions for cash refund of unutilized cenvat credit except for export cases is the gravest injustice and a considerable cost to the business and the trade. However, there are judicial silver linings seen in the concept of "terminal case" refunds being advocated. The **doctrine of terminal context** allows the judicial forums to deploy equity principles and permit cash refund of the unutilized cenvat credit in cases where it is impossible for the assessee to use the credit – say, a

closure of the business or the final product becoming exempt.

### Conclusion

Such cost-inducing dissimilarities and divergences between the two important tax credit systems in India are serious invisible knots in the value chain and are undesirable. Their significant addition to the cost of products and services provided in the country is an area that has not been addressed adequately thus far. The credit mis-matches increase the odds on the *time value of tax credit* in the hands of the tax-payers. No attempt has been so far by the Central Government and State Governments to streamline the tax credit system to make it consistent and homogenous across business and commerce. The tax credit system is the heart and soul of the value-added tax and its availability and extent determines the justice of the Value Added Tax. The considerable divergences in the area of the fundamentals between the CENVAT Credit and VAT Credit must be a matter of grave concern. Of course, the looming transition to a goods and services tax (GST) offers a new hope and light in the horizon. The coming GST should ensure that the tax credits between the Central GST and State GST are consistent and homogenous for trade and industry. If the existing differences are continued under the GST, it would be a grave lack of tax justice and would singularly be uncondusive to business pricing and stable tax policy. Any tax design that fails to neutralize tax cascading adds to the misery of the tax payers and the aam aadmi ultimately. The tax administrations can meet their Revenue objectives through other policies and the input tax credit cannot be a casualty in the name of resource crunch for tax-hungry administrations. The cenvat credit changes in the latest Budget bear unmistakably the subaltern sign of a hidden tax by obtaining an increase of tax money through the unprincipled reduction of the input tax credit. The retreat from the core tax-credit principles is alarming, to say the least. The example set by the Central government could then become an invitation to the states to tinker with and slowly eat up input tax credits. The business and trade keep their fingers crossed on when GST will come and even if the GST messiah comes, whether it will see an improvement over the present unhappy state of play in the tax world is a matter which is game for guessing and foretelling. □

# Managing Financial Crisis Successfully in Infrastructure Sector—Role of Proactive Strategies in this Perspective

Jharna Dutta\*

*The Ministry of Finance and Department of Economic Development hold that economic development of India is directly connected with availability of basic and modern infrastructure in India. Infrastructure development is the key to sustaining healthy GDP growth in India.*

*The global financial crisis has had a widespread impact on the infrastructure sector in India. The impact of the Crisis on commercial bank finance was manifested in higher interest costs in the immediate aftermath of the Crisis in India. The Government of India has now formulated different policies to facilitate India Infrastructure Fund accumulation. The main sources of finance for infrastructure sector in India have been government budget, multilaterals, specialized institutions, commercial bank finance, foreign bank finance, equity finance, and private participation in different projects including project finance. Encourage the Private Sector to take up the bulk of the upgrade projects can be used as a tool of managing financial risk in infrastructure. Strong and timely policy interventions factors – a fundamentally strong macro economy, pro-active monetary policy management, prudent foreign debt management, substantial foreign exchange reserve cover, high savings rate, and a healthy financial sector were a key to manage crisis, building confidence and recovery*

## Introduction

Infrastructure means the basic facilities and services that an economy provides to generate and sustain development activities. “The India Infrastructure Report” (Dr. Rakesh Mohan Committee Report, 1996) included electricity, gas, water supply, telecom, roads, industrial parks, railways, ports, airports, urban infrastructure, and storage as infrastructure. The importance of infrastructure for developing countries cannot be understated as it is considered a major driver for growth and poverty reduction.

Infrastructure development is the key to sustaining healthy GDP growth in India. The lack of adequate transportation, water and energy facilities, for instance, can adversely affect the development of existing industries and may likewise preclude new entrants from coming in. An efficient transportation and communication infrastructure provides overall mobility for goods and people alike, contributes to a reduction of input and transactions costs, and enhances the efficiency of markets.

Starting from 1980 a continuous market globalization process has taken place involving all kinds of human enterprises (i.e. industry, business, public services, operations, projects, logistics) causing a remarkable extension of goods, services, information and financial flows (globalization process). India has been experiencing rapid economic growth since the 1990s along with increase in the demand for infrastructure products.

The Global Financial Crisis became acute from September 2008 and it has had a widespread impact

across the world through inducing recessionary conditions including falling demand, freezing financial markets, and loss of confidence. Many sectors have been affected, particularly those in which large investments are planned, and this includes the infrastructure sector in India also. The challenge of finding the money to invest in infrastructure projects without jeopardizing fiscal health has been keeping policymakers on their toes. Researchers investigating what type of public capital would have a significant impact on growth found that public transport, telecommunications and electricity generation were positively correlated with growth.

To establish a linkage between public investments or capital and economic growth indicate that public capital is complementary and promotes private capital formation, core infrastructure such as roads and railways tend to have the most impact on productivity, and the direction of causation is from public capital to productivity and not the other way around.

With the emphasis that Government has laid on Infrastructure creation by envisaging a mammoth investment of USD 1 trillion during the Twelfth Five Year Plan (2012-17), India’s economic prospects have brightened.

## Impact of Economic and Financial Crisis on Investment in Infrastructure Sector

The world has changed dramatically over the last

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few years. Current infrastructure expenditures estimate at about \$21 billion a year in last two years is extremely low. Fiscal year 2006-07 is the first year in which greater emphasis has been placed on rebuilding the infrastructure. It is estimated that about \$49 billion will be spent in the current fiscal year; increasing to about \$80 billion a year by 2008-09, only if funds needed becomes available. About 60% of this expenditure will be on improving the existing services; balance in capital expenditures on new building program. Both of these expenditures will modernize and upgrade the present system. The capital sum of about \$20 to \$30 billion is totally inadequate, especially if the nation has to consistently achieve 10% growth rate. Capital sums requirements for a world-class system in India have been variously estimated at about \$40 to \$50 billion a year.

This additional requirement has sent India's political establishment scurrying for favours abroad. Investors are being wooed. Technical help to modernize the system is being sorted out. The financial crisis that begun with the sub-prime crisis in the US mortgage markets had spread to other continents riding on the ignorance about financial products created unethically, to serve the interests of a select few of the financial world. Continued high unemployment has diminished consumption demand which is proving to be a challenge for several export-oriented nations which are highly dependent on demand from USA. The current financial and economic crisis has an impact on many sectors and also the infrastructure sectors.

The capital needs for infrastructure development in India are large and will require domestic and international capital, which will be difficult to obtain cost effectively today. The liquidity crunch will result in a slowdown in infrastructure development – because of access to capital being limited and cost of capital having increased dramatically. The non-residential market is influenced by the business climate, which is experiencing low investment levels. Credit conditions are tightening and obtaining credit insurance is increasingly difficult. Risk aversion results in flight to quality and that will result in access to capital being restricted to the larger and higher quality companies although the cost of capital – both debt and equity – has gone up significantly even for these companies. The mid-cap and SMEs will face greater constraints and their growth plans will be impacted.

The impact of the Crisis on commercial bank finance was manifested in higher interest costs in the immediate aftermath of the Crisis in India. In India,

with falling equity markets, equity-raising was not attractive and there was reduction in Initial Public Offerings (IPOs) during the Crisis period. Many infrastructure projects that were in the pipeline will find it difficult to achieve financial closure because of the limited availability of risk capital and debt financing. Domestic inflation, interest rates and shortage of liquidity further exacerbate the problem of availability of infrastructure financing and the cost of capital.

### An Understanding of Sources of Infrastructure Finance

There is a need for large and continuing amounts of investment in almost all areas of infrastructure in India. The key issue is, while the need exists, how infrastructure projects will get financed. In the past the government has been the sole financier of these projects and has often taken responsibility for implementation, operations, and maintenance as well.

The Government of India has now formulated different policies to facilitate India Infrastructure Fund accumulation. As has been argued earlier, no single entity will have sufficient capital to meet the requirements of infrastructure finance in the country – parcelling this crisis out amongst a very large number of investors for each of whom this represents only a small exposure is the only way in which this capital can be found.

The main sources of finance for infrastructure sector in India have been government budget, multilaterals, specialized institutions, commercial bank finance, foreign bank finance, equity finance, and private participation in different projects including project finance. It is no secret that this infrastructure needs to be rebuilt to a level where a Western investor is comfortable when he invests his money in India. Various estimates have been published from \$150 billion to \$330 billion required over next 5 to 10 years to rebuild power plants, roads, railways, ports, airports, water works, health care, education, upgrade city services etc. This tall order is outside government's capability to finance, let alone building it and successfully running.

The other ways to get money to build the infrastructure in India are :

**(1) Use the Foreign Cash Reserves** – this method is the most talked about and least likely possible to get the needed cash. A foreign reserve at about \$160 billion (held in US and Europe) is needed and foreign reserves have to be left alone. In addition, India has about \$130 billion debt, which it owes to foreign lending institutions. To this if we add funds already committed and not yet paid, it roughly balances the

cash reserves. Hence the cash reserves become a sort of security to the lenders. The lenders will never move against these reserves and seize them, except in case of war or complete refusal to pay back debt, which is unlikely.

**(2) FDI & Foreign Participation** – this financing method is most likely to yield good results. There is a mountain of cash available in the world financial markets, some of which is awaiting Indian government signal to flood in. A few rules and policy changes have to be made before the floodgate is open. This money will also bring with it foreign participation, which is sorely needed for this very complex and highly technical sector. FDI has transformed China. It will do the same to India. Nuclear power plants, which require imported technology and Uranium, will most certainly require FDI in big amounts. With the passage of Indo-US nuclear deal, funds needed to build 8 nuclear power plants will arrive without much hype. Modernization of transport sector, another area lagging far behind, is to be undertaken in earnest. It also requires foreign money and their technical expertise.

**(3) Borrow Money in Open Market** – about \$300 billion borrowed will add to the debt burden of the nation and it is to be paid with export earnings. Technical and management expertise will have to be obtained together with the import of equipment and machinery. The ideal would be for the governments to manage these projects and hope to run them smoothly, that will be first for the nation. They all borrowed too much and invested in projects with none or very little return. IMF bailed them out everytime but at a high cost to the people.

Hence there is no single perfect way to finance major infrastructure upgrade. A combination of all the above three is the best possible solution.

### **Proactive Strategies for Financial Crisis Management and Restructuring**

Encourage the Private Sector to take up the bulk of the upgrade projects can be used as a tool of managing financial risk in infrastructure. India Infrastructure Fund is a recently implemented reform program, involving a paradigm shift of stance to manage financial crisis in Indian infrastructure through Private-Public joint venture. The budgetary allocation proved to be too little to keep pace with other areas of business development in India. Financial systems and policies proved to be robust with limited exposure to overseas subprime markets. Remittances, exports of goods and services such as in the IT and garment sectors, and foreign direct investments kept up during the Crisis. At the same

time, policy response played a key role in managing crisis and boosting confidence and accelerating recovery.

Given the strength of these arguments, the government has made several attempts to create the preconditions for a sustainable and scalable involvement of the private sector in the development of infrastructure within the country. These have included promotion of Development Finance Institutions (DFIs) such as the Industrial Development Bank of India (IDBI), India Infrastructure Finance Company Limited (IIFCL), Industrial Finance Corporation of India (IFCI) and the Industrial Credit and Investment Corporation of India (ICICI) and specialised entities such as the Power Finance Corporation (PFC), Infrastructure Development and Finance Corporation (IDFC), Urban Infrastructure Development Fund (UIDF) and Tamil Nadu Urban Infrastructure Development Fund (TNUDF).

Individual Indians have shown a great deal of willingness to save and hold those savings in very long-term assets either as deep-discount bonds, savings linked insurance policies, savings bank accounts; post-office savings and pension funds. Indian individual investor appears to be highly risk averse and is prepared to accept even very large negative real returns by holding large amounts of risk-free investments rather than supplying risk capital that will earn higher returns. Thus, for infrastructure finance, while the aggregate supply of funds does not appear to be a problem, there is a need for a layer of credit enhancement, which can absorb the risks associated with such financing.

Today, private interests generate about 11% of the total power. State and central interests generate the rest. If this sector has to reach an optimum capacity, then private sector has to come forward with an iron will and wrist of steel to overcome crisis. Indo-US nuclear deal will help. It will have foreign private participation in it. But the first nuclear power plant under this deal will not be operational until about 2012. Until then all possible avenues to add additional power capacity are to be explored.

### **Need for Proactive strategies for Managing Financial Crisis**

Strong and timely policy interventions factors – a fundamentally strong macro economy, pro-active monetary policy management, prudent foreign debt management, substantial foreign exchange reserve cover, high savings rate, and a healthy financial sector were a key to manage crisis, building confidence and recovery. In India, monetary policy was eased and interest rates were sharply lowered during the Crisis,

so that liquidity problems would be overcome and the cost of credit would come down to pre-Crisis levels in a short span of time.

The relatively strong fundamentals of the Indian economy also provided room for cushioning the impact of the Crisis through fiscal stimulus packages in December 2008 and January 2009. These fiscal stimulus packages, together amounting to about 3% of GDP, included, inter alia, additional public spending, particularly capital expenditure, and government guaranteed funds for infrastructure spending. These stimulus packages came on top of an already announced expanded safety-net for the rural poor, a farm loan waiver package, and salary increases for government staff, all of which too, stimulated demand.

The impact of the Crisis on private participation in the power sector in India was centred on the latter part of 2008 and early 2009, when there was some increase in interest rates and higher risk perception. Evidence shows that the Crisis delayed actual bidding, fund-raising, and financial closure of some mega projects. However, proactive measures by the government and the central bank led to rapid recovery and there was explosive growth of power sector projects achieving financial closure during 2009-10 as the impact of the Crisis wore off.

Recent developments such as the selection of private developers for setting up generation projects through competitive bidding (including developers for UMPPs); ongoing development and construction of generation projects (2007-2012); prospects of the country achieving record capacity addition during the Eleventh Five Year Plan period; initial interest shown by private sector in transmission projects; evolution of new business models for private participation in distribution; and the increasing level of trading activity have brought a sense of optimism in the sector. Hence groundwork for private participation and the government's economic and financial policy regime in this domain can manage financial crisis to some extent.

### Conclusion

Infrastructure growth is a critical necessity to meet the growth requirements of the country. Government led infrastructure financing and execution cannot meet these needs in an optimal manner and there is a need to engage more investors for meeting these needs. The World Bank designed the Infrastructure Recovery and Assets (INFRA) Platform in spring 2009 as its infrastructure response to the global financial crisis.

The INFRA Platform was launched to support counter-cyclical spending on infrastructure and protecting existing assets and priority projects of the client countries with the intention of providing the foundation for rapid recovery and job creation, and to promote long-term growth. Regular dialogue with the Government is an integral part of development of infrastructure sector in the country. Private sector participation in infrastructure projects is picking up. Therefore, the regulatory regime in this domain is also evolving.

In such a scenario, regular feedback to the Government and relevant government bodies on various policy and regulatory issues is a must. Some of the recommendations get accepted, some not – but that is the way how it works towards creating an environment more appropriate for private sector involvement in infrastructure creation. □

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# THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by an Act of Parliament)

12, Sudder Street, Kolkata - 700 016

Kolkata, the 13<sup>th</sup> June, 2011



## NOTIFICATION

EL-2011/26 : The election to the Eighteenth Council of the Institute of Cost and Works Accountants of India was held in accordance with the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended and as per the following Notifications :

1. Notification No. EL - 2011/1 dated 3<sup>rd</sup> March 2011
2. Notification No. EL - 2011/2 dated 3<sup>rd</sup> March 2011
3. Notification No. EL - 2011/5 dated 3<sup>rd</sup> March 2011
4. Notification No. EL - 2011/6 dated 3<sup>rd</sup> March 2011
5. Notification No. EL - 2011/7 dated 3<sup>rd</sup> March 2011
6. Notification No. EL - 2011/8 dated 3<sup>rd</sup> March 2011
7. Notification No. EL - 2011/9 dated 3<sup>rd</sup> March 2011

In pursuance of Rule 36 of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended and order of the Council of the Institute of Cost and Works Accountants of India, it is hereby notified for information that the following members have been declared elected to the Eighteenth Council of the Institute of Cost and Works Accountants of India for the term 2011- 2015 :

### A. Western India Regional Constituency :

1. Apte, Amit Anand (M/16105)  
11/7, Laxminarayan Nagar, S. No. 11 & 12,  
Erandawane, Pune - 411 004.
2. Bhargave, Sanjay Ramchandra (M/8348)  
3, Audumber Apartments,  
S. No. 98, Bhusari Colony (R), Paud Road, Kothrud,  
Pune - 411 038.
3. Bhattad, Pramodkumar Vithaldasji (M/6095)  
Dy. General Manager (Finance), South Eastern  
Coalfields Ltd., Seepat Road, Bilaspur - 495 006.
4. Soman, Aruna Vilas (M/6878)  
501, Vidya Apartments,  
168, Veer Savarkar Marg, Mahim, Mumbai - 400 016.

### B. Southern India Regional Constituency :

1. Durga Prasad, A.S. (M/6922)  
M.D. & C.E.O., Propart Solutions India Pvt. Ltd.,  
4th Floor, Narmada Arcade, Above HDFC Bank,  
Nacharam Main Road, Hyderabad - 500 076.
2. Gopalakrishnan, M. (M/5927)  
1, Lakshmi Niwas, 3rd Street, K.V. Colony,  
West Mambalam, Chennai - 600 033.
3. Om Prakash, A. (M/11597)  
No. 3, 1st Main, 1st Cross,  
Kumaraswamy Layout II Stage,  
Bangalore - 560 078.
4. Rao, P.V.S. Jagan Mohan (M/7781)  
308, Himasai Gardens, Gulmohar Block,  
Jawahar Nagar, RTC Cross Roads,  
Hyderabad - 500 020.

### C. Eastern India Regional Constituency :

1. Bandyopadhyaya, Sanjiban (M/8601)  
G-16, Banerjee Para, Kamdahari, Garia  
Kolkata - 700 084.
2. Mohanty, Suresh Chandra (M/10924)  
601, Sahid Nagar, Bhubaneswar - 751 007.
3. Srinivasa Prasad, T.C.A. (M/10996)  
Executive Director (F&A-ERP)  
Steel Authority of India Ltd.,  
SAIL House, 7<sup>th</sup> Floor,  
50, J.L. Nehru Road, Kolkata - 700 071.
4. Thakur, Manas Kumar (M/12867)  
22/4, Verner Lane, Belghoria,  
Kolkata - 700 056.

### D. Northern India Regional Constituency :

1. Goel, Hari Krishan (M/14256)  
31, Community Centre, Ashok Vihar,  
Delhi - 110 052.
2. Gupta, Sanjay (M/18672)  
C-4-E/135, Janak Puri,  
New Delhi - 110 058.
3. Singh, Rakesh (M/10111)  
Pocket - C,  
211B, Siddhartha Extension,  
New Delhi - 110 014.

**(Kaushik Banerjee)**  
**Returning Officer**

**THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA**  
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12, Sudder Street, Kolkata - 700 016

Kolkata, the 13<sup>th</sup> June, 2011

**NOTIFICATION**

EL-2011/27 : The elections to the four Regional Councils of the Institute of Cost and Works Accountants of India was held in accordance with the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended, the Cost and Works Accountants Regulations, 1959 as amended and as per the following Notifications :

1. Notification No. EL - 2011/1 dated 3<sup>rd</sup> March 2011
2. Notification No. EL - 2011/3 dated 3<sup>rd</sup> March 2011
3. Notification No. EL - 2011/4 dated 3<sup>rd</sup> March 2011
4. Notification No. EL - 2011/5 dated 3<sup>rd</sup> March 2011
5. Notification No. EL - 2011/6 dated 3<sup>rd</sup> March 2011
6. Notification No. EL - 2011/7 dated 3<sup>rd</sup> March 2011
7. Notification No. EL - 2011/8 dated 3<sup>rd</sup> March 2011
8. Notification No. EL - 2011/9 dated 3<sup>rd</sup> March 2011

In pursuance of Rule 36 of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended read with Regulations 114, 115, 117, 118, 121 and other applicable Regulations of the Cost and Works Accountants Regulations, 1959 as amended and order of the Council of the Institute of Cost and Works Accountants of India, it is hereby notified for information that the following members have been declared elected to the four Regional Councils of the Institute of Cost and Works Accountants of India for the term 2011 - 2015 :

**A. Western India Regional Council :**

1. Birla, Dinesh Kumar (M/7907)  
A/3, Nirant Appartment, Opp. Town Hall,  
Near : Karnavati Hospital, Ellis - Bridge,  
Ahmedabad - 380 006.
2. Joshi, Neeraj Dhananjay (M/24118)  
CMP Pride, 1st Floor, Plot No. 6,  
S.No.1616, Erandawana Hsg. Soc.,  
Erandawana, Pune - 411 004.
3. Joshi, Vijay P. (M/22286)  
302, Sham Tower, 164/2, R.N.T. Marg,  
Near : Hotel President, Indore.
4. Mitra, Debasish (M/15379)  
B/502, Mayuresh Srishty Park,  
Off. Lake Road, Bhandup (W), Mumbai - 400 078.
5. Nawal, Ashok Bhagvandas (M/5720)  
A.B. Nawal & Associates,  
203, Rohan Heights, College Road, Nasik- 422 001.
6. Paliwal, Ghanshyam R. (M/7815)  
G.R. Paliwal & Co., 408A, Lokmat Bhawan,  
Ramdaspath, Wardha Road, Nagpur- 440 012.
7. Shah, Shrenik Sumantlal (M/6325)  
"Swashraya", 1-A, A.D.C. Bank Society,  
B/h. Sahajanand College, Ambawadi,  
Ahmedabad - 380 015.
8. Thatte, Ashish Prakash (M/27543)  
3, A/5, Anand Deep, Pendse Nagar,  
Dombivli (East) - 421 201.

**B. Southern India Regional Council :**

1. Iyer, Raju P. (M/6987)  
17 (Old No. 8), Hasthinapuram Main Road,  
Nehru Nagar, Chromepet, Chennai-600 044
2. Mayil Murugan, A. (M/20245)  
9, Kammalar Lane, North Car Street,  
Thirupparankundram, Madurai - 625 005.
3. Murugesan, J. (M/8400)  
17/1, Selvanagar Second Street,  
Ponnagar, Tiruchirapalli - 620 001.
4. Padmanabhan, H. (M/16200)  
Sr. Manager, Indian Overseas Bank,  
Sreekanteswaram Branch,  
Thiruvananthapuram - 695 023.
5. Prabhakar, B.R. (M/4630)  
No. 179, "Shubhodaya", 44th Cross, 8th Block,  
Jayanagar, Bangalore- 560 082.
6. Ramachandran, Srinivasan (M/4341)  
C/o Mr. Sakthi Kandappan, Investment Consultants,  
No 4, Office and Market Complex, No 4, 8<sup>th</sup> East Cross  
Road, Gandhi Nagar, Vellore - 632 006.
7. Rao, Sanyasi Kalavalapalli (M/16865)  
AGM (F & A), RINL, Vishakhapatnam Steel Plant,  
Vishakhapatnam - 530 031.
8. Subrahmanyam, G.V.S. (M/18713)  
Flat No 204, Shri Shailaja Nivas,  
Near Santoshimatha Temple,  
Bhavani Nagar, Dilsukhnagar, Hyderabad - 500 036.

9. Venkateswarlu, Ch. (M/10132)  
Contracts Department,  
Tata Projects Ltd, Mithona Towers,  
Prenderghast Road, Secunderabad - 500 003.

**C. Eastern India Regional Council :**

1. Agarwal, Chitra (M/10441)  
Room No. 303A, Deluxe Centre,  
157C, Lenin Sarani, Kolkata- 700 013.
2. Bhattacharjee, Shyamal Kumar (M/5828)  
8/4, S.P. Mukherjee Road,  
Durgapur - 713 204.
3. Bhattacharya, Pallab (M/20372)  
37, Gobindo Bose Lane,  
Kolkata - 700 025.
4. Dasgupta, Saswata (M/21679)  
8/4, Banerjee Para Road,  
Behala, Kolkata - 700 060.
5. Mukhopadhyay, Ashok Kumar (M/11219)  
14D/1B, Dum Dum Road,  
Kolkata - 700 030.
6. Mukhopadhyay, Bibekananda (M/26671)  
B - 20, Amarabati, Sodepur,  
Kolkata - 700 110.
7. Padhi, Shiba Prasad (M/20719)  
Plot No. N-1/163, IRC Village,  
Nayapalli, Bhubaneswar - 751 015.
8. Sahoo, Srikanta Kumar (M/18217)  
Qtrs No. D-32/F (2<sup>nd</sup> Floor)  
GRIDCO Colony, P.O. - Bhoi Nagar,  
Bhubaneswar - 751 022.

**D. Northern India Regional Council :**

1. Bhalla, Rakesh (M/9442)  
H. No. 4551/C, Sector - 70,  
SAS Nagar, Mohali - 160 059.
2. Bhatt, Sandeep Kumar (M/14652)  
F - 103, DAV Complex,  
Opp. Samachar Apptt,  
Mayur Vihar - 1, New Delhi - 110 091.
3. Jain, Baboo Lal (M/6218)  
General Manager (F & A),  
MMTC Ltd, Core - I,  
Scope Complex, Lodi Road,  
New Delhi - 110 003.
4. Kumar, Arvind (M/25573)  
Manager - Accounts, IFFCO,  
2/10 Kali Mandir Enclave,  
Dehradun.
5. Sahni, Ravi Kumar (M/16339)  
408, 1st Floor Shakti Khand - IV,  
Indira Puram, Ghaziabad - 201010
6. Sharma, Vijender (M/18513)  
11, (3rd Floor) Hargovind Enclave,  
New Delhi - 110 092.
7. Srivastava, Saurabh (M/13771)  
IRCON International Ltd,  
Plot No - 22, EcoTech - III,  
Udyog Kendra, Greater Noida - 201 306.

**(Kaushik Banerjee)  
Returning Officer**



# Ministry of Corporate Affairs

## Notification

New Delhi, dated the 3<sup>rd</sup> June, 2011

G.S.R. 429(E) - In exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Accounting Records Rules in so far as they relate to the Cost Accounting Records Rules published vide (i) G.S.R. 311 dated 2<sup>nd</sup> March, 1967, (ii) G.S.R. 1260 dated 10 August, 1967, (iii) G.S.R. 1447 dated 16<sup>th</sup> September, 1967, (iv) G.S.R. 1448 dated 18 September, 1967, (v) G.S.R. 1467 dated 20<sup>th</sup> September, 1967, (vi) G.S.R. 1503 dated 27<sup>th</sup> September, 1967, (vii) G.S.R. 2298 dated 15<sup>th</sup> September, 1969, (viii) G.S.R. 2574 dated 24 October, 1969, (ix) G.S.R. 334 dated 25<sup>th</sup> February, 1972, (x) G.S.R. 1529 dated 27 November, 1972, (xi) G.S.R. 590(E) dated 29<sup>th</sup> December, 1975, (xii) G.S.R. 601(E) dated 31 December, 1975, (xiii) G.S.R. 606 dated 20<sup>th</sup> April, 1976, (xiv) G.S.R. 605 dated 22<sup>th</sup> April, 1976, (xv) G.S.R. 126(E) dated 24<sup>th</sup> March, 1977, (xvi) G.S.R. 157(E) dated 1 April, 1977, (xvii) G.S.R. 417(E) dated 28<sup>th</sup> June, 1977, (xviii) G.S.R. 45(E) dated 31<sup>st</sup> January, 1979, (xix) G.S.R. 506(E) dated 10<sup>th</sup> May, 1984, (xx) G.S.R. 688 dated 25<sup>th</sup> June, 1984, (xxi) G.S.R. 767 dated 7<sup>th</sup> July, 1984, (xxii) G.S.R. 664 dated 1 July, 1985, (xxiii) G.S.R. 574 dated 31 July, 1990, (xxiv) G.S.R. 258(E) dated 3<sup>rd</sup> March, 1993, (xxv) G.S.R. 677(E) dated 29<sup>th</sup> October, 1993, (xxvi) G.S.R. 678(E) dated 29<sup>th</sup> October, 1993, (xxvii) G.S.R. 186(E) dated 12<sup>th</sup> April, 1996, (xxviii) G.S.R. 202(E) dated 6<sup>th</sup> May, 1996, (xxix) G.S.R. 271(E) dated 9<sup>th</sup> July, 1996, (xxx) G.S.R. 537(E) dated 11<sup>th</sup> September, 1997, (xxxi) G.S.R. 536(E) dated 11<sup>th</sup> September, 1997, (xxxii) G.S.R. 704(E) dated 28 September, 2001, (xxxiii) G.S.R. 276(E) dated 24<sup>th</sup> April, 2001, (xxxiv) G.S.R. 277(E) dated 24<sup>th</sup> April, 2001, (xxxv) G.S.R. 685(E) dated 8<sup>th</sup> October, 2002, and (xxxvi) G.S.R. 562(E) dated 2<sup>nd</sup> September, 2004, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely :

**1. Short Title and Commencement :** (1) These rules may be called The Companies (Cost Accounting Records) Rules, 2011. (2) They shall come into force on the date of their publication in the Official Gazette.

**2. Definitions and Interpretations :** In these rules, unless otherwise so provided, –

(a) “Act” means the Companies Act, 1956 (1 of 1956); (b) “Compliance Report” means compliance report duly authenticated and signed by a cost accountant in the prescribed form of compliance report; (c) “Cost Accountant” for the purpose of these rules means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who is either a permanent employee of the company or holds a valid certificate of practice under sub-section (1) of section 6 and who is deemed to be in practice under sub-section (2) of section 2 of that Act and includes a firm of cost accountants;

(d) “Cost Accounting Standards” means the standards of cost accounting, issued by the Institute;

(e) “Cost Records” means books of account relating to utilisation of materials, labour and other items of cost as applicable to the production, processing, manufacturing or mining activities of the company; (f) “Form-A” means the form prescribed in these rules for filing compliance report and other documents with the Central Government in the electronic mode;

(g) “Form-B” means the form of the compliance report and includes Annexure to the compliance report;

(h) “Generally Accepted Cost Accounting Principles” means the principles of cost accounting issued by the Institute;

(i) “Institute” means the Institute of Cost and Works Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);

(j) “Manufacturing Activity” includes any act, process or method employed in relation to –

(i) transformation of raw materials, components, sub-assemblies, or parts into semi-finished or finished products; or (ii) making, altering, repairing, fabricating, generating, composing, ornamenting, furnishing, finishing, packing, re-packing, oiling, washing, cleaning, breaking-up, demolishing, or otherwise treating or adapting any product with a view to its use, sale, transport, delivery or disposal; or (iii) constructing, reconstructing, reconditioning, servicing, refitting, repairing, finishing or breaking up of any products.

(k) "Mining Activity" includes any act, process or method employed in relation to the extraction of ores, minerals, oils, gases or other geological materials from the earth's crust, including sea bed or river bed.

(l) "Processing Activity" includes any act, process, procedure, function, operation, technique, treatment or method employed in relation to –

- (i) altering the condition or properties of inputs for their use, consumption, sale, transport, delivery or disposal;
- or (ii) accessioning, arranging, describing, or storing products; or (iii) developing, fixing, and washing exposed photographic or cinematographic film or paper to produce either a negative image or a positive image; or
- (iv) printing, publishing, finishing, perforation, trimming, cutting, or packaging; or (v) pumping oil, gas, water, sewage or any other product; or (vi) transforming or transmitting, distributing power or electricity; or (vii) harboring, berthing, docking, elevating, lading, stripping, stuffing, towing, handling, or warehousing products; or (viii) preserving or storing any product in cold storage; or (ix) constructing, reconstructing, reconditioning, repairing, servicing, refitting, finishing or demolishing of buildings or structures; or (x) farming, feeding, rearing, treating, nursing, caring, and stocking of living organisms; or (xi) telecasting, broadcasting, telecommunicating voice, text, picture, information, data or knowledge through any mode or medium; or (xii) obtaining, compiling, recording, maintaining, transmitting, holding or using the information or data or knowledge; or (xiii) executing instructions in memory to perform some transformation and/or computation on the data in the computer's memory.

(m) "Product" means any tangible or intangible good, material, substance, article, idea, know-how, method, information, object, service, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure, function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal.

(n) "Product Group" in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products means a group of homogenous and alike products or services, produced by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage or application.

(o) "Production Activity" includes any act, process, or method employed in relation to -

- (i) transformation of tangible inputs (raw materials, semi-finished goods, or sub-assemblies) and intangible inputs (ideas, information, know how) into goods or services; or (ii) manufacturing or processing or mining or growing a product for use, consumption, sale, transport, delivery or disposal; or (iii) creation of value or wealth by producing goods or services.

(p) "Turnover" means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes any turnover from job work or loan license operations but does not include any non-operational income;

(q) All other words and expressions used in these rules but not defined, and defined in the Act and rules made under clause (d) of sub-section (1) of section 209 of the Act shall have the same meanings as assigned to them in the Act or rules, as the case may be.

**3. Application :** (1) These rules shall apply to every company, including a foreign company as defined under section 591 of the Act, which is engaged in the production, processing, manufacturing, or mining activities and wherein, the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India. Provided that these rules shall not apply to a company which is a body corporate governed by any special Act;

Provided further that these rules shall not apply to the activities or products covered in any of the following rules –

- (a) *Cost Accounting Records (Bulk Drugs) Rules, 1974*
- (b) *Cost Accounting Records (Formulations) Rules, 1988*
- (c) *Cost Accounting Records (Fertilizers) Rules, 1993*

- (d) Cost Accounting Records (Sugar) Rules, 1997
- (e) Cost Accounting Records (Industrial Alcohol) Rules, 1997
- (f) Cost Accounting Records (Electricity Industry) Rules, 2001
- (g) Cost Accounting Records (Petroleum Industry) Rules, 2002
- (h) Cost Accounting Records (Telecommunications) Rules, 2002

**4. Maintenance of records :** (1) Every company to which these rules apply, including all units and branches thereof shall, in respect of each of its financial year stcommencing on or after the 1 day of April, 2011, keep cost records. (2) The cost records referred to in sub-rule (1) shall be kept on regular basis in such manner so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half-yearly/annual basis. (3) The cost records shall be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute; to the extent these are found to be relevant and applicable. The variations, if any, shall be clearly indicated and explained. (4) The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources. These records shall also provide necessary data which is required to be furnished under these rules. (5) All such cost records and cost statements, maintained under these rules shall be reconciled with the audited financial statements for the financial year specifically indicating expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to reconcile the profit of all product groups with the overall profit of the company. The variations, if any, shall be clearly indicated and explained. (6) All such cost records, cost statements and reconciliation statements, maintained under these rules, relating to a period of not less than eight financial years immediately preceding a financial year or where the company had been in existence for a period less than eight years, in respect of all the preceding years shall be kept in good order. (7) It shall be the duty of every person, referred to in sub-section (6) and (7) of section 209 of the Companies Act, 1956 (1 of 1956), to take all reasonable steps to secure compliance by the company with the provisions of these rules in the same manner as he is liable to maintain accounts required under sub-section (1) of section 209 of the said Act.

**5. Form of the Compliance Report :** Every company to which these rules apply shall submit a compliance report, in respect of each of its financial year commencing ston or after the 1 day of April, 2011, duly certified by a cost accountant, along with the Annexure to the Central Government, in the prescribed form.

**6. Time limit for submission of Compliance Report :** Every company shall submit the compliance report referred to in rule 5 to the Central Government within one hundred and eighty days from the close of the company's financial year to which the compliance report relates.

**7. Authentication of Annexure to the Compliance Report :** The Annexure prescribed with the compliance report, as certified by the cost accountant, shall be approved by the Board of Directors before submitting the same to the Central Government by the company.

**8. Penalties :** (1) If default is made by the cost accountant in complying with the provisions of these rules, he shall be punishable with fine, which may extend to five thousand rupees.

(2) If a company contravenes any provisions of these rules, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Act, shall be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 of Companies Act, 1956 (1 of 1956).

**9. Savings :** The supersession of the Cost Accounting Records Rules, shall not in any way affect –

(a) any right, obligation or liabilities acquired, accrued or incurred thereunder; (b) any penalty, forfeiture or punishment incurred in respect of any contravention committed thereunder; and (c) any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, and; any such investigation, legal proceeding or remedy may be instituted, continued or enforced and any such penalty, forfeiture or punishment may be imposed as if those rules had not been superseded.

[F. No. 52/10/CAB-2010]

**B. B.GOYAL**  
**ADVISER (COST)**

<b>FORM-A</b>	Form for filing Compliance Report and other documents with the Central Government
[Pursuant to section 209(1)(d), 600(3)(b) of the Companies Act, 1956 and rule 2 of The Companies (Cost Accounting Records) Rules, 2011]	

**PART I - GENERAL INFORMATION**

**Note : All fields marked in \* are to be mandatorily filled.**

1. (a) \*Corporate identity number (CIN) or foreign company registration number of Pre-Fill the company **Pre-Fill**

(b) Global location number (GLN) of company

2. (a) \*Name of the company

(b) \*Address of the registered office or of the principal place of business in India of the company

(c) \*E-mail Address of the company

3. (a) \*Financial year covered by the compliance report

From  (DD/MM/YYYY)

To  (DD/MM/YYYY)

(b) \*Date of Board of directors' meeting in which annexure to the compliance report was approved  (DD/MM/YYYY)

**4. Details of the cost accountant**

(a) \*Category of the cost accountant  Individual  Cost accountant's firm

(b) In case of individual, whether the cost accountant is in permanent employment of the company or in practice  In Employment  In Practice

(c) \*Name of the cost accountant or the cost accountant's firm who has certified the cost records of the company

(d) \*Income tax permanent account number of the cost accountant or the cost accountant's firm

(e) \*Membership number of cost accountant or cost accountant's firm's registration number

(f) Address of the cost accountant or cost accountant's firm

(i) Line I

Line II

(ii) City

(iii) State

(iv) Country

(v) Pin Code

(g) \*E-mail ID of the cost accountant or cost accountant's firm

**5. \*Quantitative Information**

Sno.	Name of the Product/Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	(Value in Rupees)
A	Produced/Manufactured Product Groups				
	1.				
	2.				
	3. etc.				
B	Services Groups				
	1.				
	2.				
	3. etc.				
C	Trading Activities (Product Group-wise)				
	1.				
	2.				
	3. etc.				
D	Other Income				
Total Income as per Financial Accounts					
<b>PART-II</b>					

**Attachments :**

1. Compliance report as per The Companies (Cost Accounting Records) Rules, 2011

2. Optional attachments(s) - if any

List of attachments

Remove attachment

**Verification :**

To the best of my knowledge and belief, the information given in this form and its attachments is correct and complete.

I have been authorised by the Board of directors' resolution number  dated  (DD/MM/YYYY)

to sign and submit this form.

I am authorised to sign and submit this form.

**To be digitally signed by :**

Managing Director or director or manager or secretary (in case of an Indian company) or an authorised representative (in case of a foreign company)

\*Designation

\*Director identification number of the director or Managing Director; or Income-tax PAN of the manager or of authorised representative; or Membership number, if applicable or income-tax PAN of the secretary (secretary of a company who is not a member of ICSI may quote his/her income-tax PAN)

Director of the company

Director identification number of the director

Modify	Check Form	Pre-scrutiny	Submit
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Digital Signatures

**This e-form has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the filing company**

**From-B  
Form of Compliance Report**

[See rule 2, and rule 5]

I/We ..... being in permanent employment of the company / in practice, and having been appointed as cost accountant under Rule 5 of the Companies (Cost Accounting Records) Rules, 2011 of ..... (mention name of the company) having its registered office at ..... (mention registered office address of the company) (hereinafter referred to as the company), have examined the books of account prescribed under clause (d) of sub-section (1) of section 209 of the said Act, and other relevant records for the period/year ..... (mention the financial year) and certify as under :

1. I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this compliance report.
2. In my/our opinion, proper cost records, as per Companies (Cost Accounting Records) Rules, 2011 prescribed under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956, have/have not been maintained by the company so as to give a true and fair view of the cost of production/operation, cost of sales and margin of all the products/activities of the company.
3. Detailed unit-wise and product/activity-wise cost statements and schedules thereto in respect of the product groups/activities are/are not kept in the company.
4. In my/our opinion, the said books and records give/do not give the information required by the Companies Act, 1956 in the manner so required.
5. In my/our opinion, the said books and records are/are not in conformity with the generally accepted cost accounting principles and cost accounting standards issued by The Institute of Cost and Works Accountants of India, to the extent these are found to be relevant and applicable.

Dated : this \_\_\_ day of \_\_\_\_\_ 20\_\_ at \_\_\_\_\_ (mention name of place of signing this report)

**Signature & Seal of the Cost Accountants (S)  
Membership Number (S)**

**Notes :**

- (i) Delete words not applicable.
- (ii) If as a result of the examination of the books of account, the cost accountant desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant para.
- (iii) Briefly give your observations and suggestions, if any, relevant to the maintenance of cost accounting records by the company.
- (iv) Cost accountant may use separate sheet(s) for (ii) and (iii) above, if required.

## ANNEXURE TO THE COMPLIANCE REPORT

[See rule 2 and rule 5]

## 1. General :

- (a) Name of the company :  
 (b) Registered office address :  
 (c) Financial year to which the Compliance Report relates.

## 2. Quantitative Information :

Sno.	Name of the Product/Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	(Value in Rupees)
<b>A</b>	<b>Produced/Manufactured Product Groups</b>				
	1.				
	2.				
	3. etc.				
<b>B</b>	<b>Services Groups</b>				
	1.				
	2.				
	3. etc.				
<b>C</b>	<b>Trading Activities (Product Group-wise)</b>				
	1.				
	2.				
	3. etc.				
<b>D</b>	<b>Other Income</b>				
<b>Total Income as per Financial Accounts</b>					

## 3. Reconciliation Statement :

<b>Net Margin (Profit/Loss) as per Cost Accounts</b>	<b>(In Rupees)</b>
A. From Produced / Manufactured Product Groups	
B. From Services Groups	
C. From Trading Activities	
<b>Total as per Cost Accounts</b>	
Add : Incomes not considered in Cost Accounts (if any)	
Less : Expenses not considered in Cost Accounts (if any)	
Add/Less : Difference in Stock Valuation	
<b>Profit/(Loss) as per Financial Accounts</b>	

## Notes :

- (i) For produced/manufactured product groups, use the nomenclature as used in the Central Excise Act/ Rules, as applicable.  
 (ii) For services groups, use the nomenclature as used in the Finance Act/Central Service Tax Rules, as applicable.

Signature  
 Name  
 Cost Accountants (S)  
 Membership Number (S)  
 Seal  
 Date

## Ministry of Corporate Affairs

### Notification

New Delhi, dated the 3rd June, 2011

G.S.R. 430(E) : In exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with sub-section (4) of section 233B, and sub-section (1) of section 227 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Audit Report Rules, 2001, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely :

**1. Short Title and Commencement :** (1) These rules may be called The Companies (Cost Audit Report) Rules, 2011. (2) They shall come into force on the date of their publication in the Official Gazette.

**2. Definitions and Interpretations :** In these rules, unless otherwise so provided,— (a) “Act” means the Companies Act, 1956 (1 of 1956); (b) “Cost Auditor” means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Act; (c) “Form-I” means the Form prescribed in these rules for filing cost audit report and other documents with the Central Government in the electronic mode; (d) “Form-II” means the Form of the cost auditor’s report and includes auditor’s observations and suggestions, and Annexure to the cost audit report; (e) “Form-III” means the Form of the performance appraisal report; (f) “Product” means any tangible or intangible good, material, substance, article, idea, know-how, method, information, object, service, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure, function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal. (g) “Product Group” in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products means a group of homogenous and alike products or services, produced by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage or application; (h) “Report” means cost audit report duly audited and signed by the cost auditor in the prescribed form of cost audit report; (i) All other words and expressions used in these rules but not defined, and defined in the Act and rules made under clause (d) of sub-section (1) of section 209 and sub-section (4) of section 233B of the Act shall have the same meanings as assigned to them in the Act or rules, as the case may be.

**3. Application :** (1) These rules shall apply to every company in respect of which an audit of the cost records has been ordered by the Central Government under sub-section (1) of section 233B of the Act. (2) Every company as specified in sub-rule (1) shall, within ninety days of the commencement of every financial year, file an application with the Central Government seeking prior approval for appointment of the cost auditor, through electronic mode, in the prescribed form, alongwith the prescribed fee as per the Companies (Fees on Applications) Rules, 1999, and requisite enclosures. (3) Every cost auditor appointed under sub-rule (2) shall, within thirty days of receipt of letter of appointment, inform his appointment to the Central Government through electronic mode, in the prescribed form, alongwith the requisite enclosures. (4) Notwithstanding anything contained in sub-rule (2) and (3) above, every company and every cost auditor shall follow the procedure prescribed vide Ministry of Corporate Affairs’ General Circular No. 15/2011 [File No. 52/5/CAB-2011] dated April 11, 2011.

**4. Form of the Report :** (1) Every cost auditor, who conducts an audit of the cost records of the company, shall submit the report along with auditor’s observations and suggestions, and Annexure to the Central Government in the prescribed form and at the same time forward a copy of such report to the company. (2) The cost audit report submitted on or after 1 day of April, 2012, irrespective of the financial year of the company to which it relates, shall be in the form prescribed under these rules. (3) Every company as specified in sub-rule (1) of rule 3 shall, keep and maintain cost details, statements, schedules, etc. for each unit and each product or activity comprised in each product group, duly authenticated by atleast two Directors of the company and the cost auditor. (4) The cost details, statements, schedules, etc. of every company, as specified



in sub-rule (3), relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years shall be kept in good order. (5) Every cost auditor, who submits a report under sub-rule (1), shall also furnish performance appraisal report, duly authenticated by the cost auditor, to the Board/ Audit Committee of the company in the prescribed form. (6) Every cost auditor, who submits a report under sub-rule (1), shall also give clarifications, if any, required by the Central Government on the cost audit report submitted by him, within thirty days of the receipt of the communication addressed to him calling for such clarifications.

**5. Time limit for submission of Report :** Every cost auditor shall forward his report referred to in sub-rule (1) of rule 4 to the Central Government and to the concerned company within one hundred and eighty days from the close of the company's financial year to which the report relates.

**6. Cost Auditor to be furnished with the cost accounting records etc. :** Without prejudice to the powers and duties the Cost Auditor shall have under sub-section (4) of section 233B of the Act, the company and every officer thereof, including the persons referred to in sub-section (6) of section 209 of the Act, shall make available to the cost auditor, such cost accounting records, cost statements, other books and documents, and Annexure to the Report, duly completed, as would be required for conducting the cost audit, and shall render necessary assistance to the cost auditor so as to enable him to complete the cost audit and submit his report within the time limit specified in rule 5.

**7. Authentication of Annexure to the Cost Audit Report :** The Annexure prescribed with the cost audit report shall be approved by the Board of Directors before submitting the same to the Central Government by the cost auditor. The Annexure, duly audited by the cost auditor, shall also be signed by the Company Secretary and at least one Director on behalf of the company. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors.

**8. Penalties :** (1) If default is made by the cost auditor in complying with the provisions of rule 4 or rule 5, he/she shall be punishable with fine, which may extend to five thousand rupees. (2) If a company contravenes any provisions of these rules, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Act, shall be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 and sub-section (11) of section 233B of Companies Act, 1956 (1 of 1956).

**9. Savings :** The supersession of the Cost Audit Report Rules, 2001, shall not in any way affect –

(a) any right, obligation or liabilities acquired, accrued or incurred thereunder; (b) any penalty, forfeiture or punishment incurred in respect of any contravention committed thereunder; and (c) any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, and; any such investigation, legal proceeding or remedy may be instituted, continued or enforced and any such penalty, forfeiture or punishment may be imposed as if those rules had not been superseded.

[F. No. 52/10/CAB-2010]

**B. B. GOYAL**  
ADVISER (COST)

**FORM-I**

Form for filing Cost Audit Report and other documents with the Central Government

[Pursuant to section 233B(4), 600(3)(b) of the Companies Act, 1956 and rule 2 of The Companies (Cost Audit Report) Rules, 2011]

**PART I - GENERAL INFORMATION**

**Note :** All fields marked in \* are to be mandatorily filled.

1. (a) \*Corporate identity number (CIN) or foreign company registration number of the company  **Pre-Fill**

(b) Global location number (GLN) of company

2. (a) \*Name of the company

(b) \*Address of the registered office or of the principal place of business in India of the company

(c) \*E-mail address of the company

3. (a) \*Financial year From  (DD/MM/YYYY)  
To  (DD/MM/YYYY)

(b) \*Date of Board of directors meeting in which annexure to the cost audit report was approved  (DD/MM/YYYY)

4. (a) \*State number of Product Groups for which the Cost Audit Report is being submitted

(b) \*Details of such Product Groups of the company (*Number of rows depending on 4(a) above*)

Name of the Product Group	Major Products/Activities Covered

5. (a) \*State number of Product Groups/ Activities not covered in the Cost Audit Report

(b) \*Details of such Product Groups/ Activities of the company (*Number of rows depending on 5(a) above*)

Name of the Product Group	Major Products/Activities Covered

6. **Details of the cost auditor**

(a) \*Category of the cost auditor  Individua  Cost accountant's firm

(b) \*Name of the cost auditor or the cost auditor's firm appointed as cost auditor of the company

(c) \*Income tax permanent account number of the cost auditor or cost auditor's firm

(d) \*Membership number of cost auditor or cost auditor's firm's registration number

(e) Address of the cost auditor or cost auditor's firm

(i) Line I

Line II

(ii) City

(iii) State

(iv) Country

(v) Pin Code

(f) \*E-mail ID of the cost auditor or cost auditor's firm

7. (a) \*Whether the cost auditor's report has been qualified or has any reservations or contains adverse remarks  Yes  No

(b) \*If yes, cost auditor's qualifications, reservations or adverse remarks as given in the cost auditor's report

8. (a) \*Whether the cost auditor's report contain any observations or suggestions  Yes  No

(b) \*If yes, cost auditor's observations / suggestions

**PART-II**

**Attachments :**

1. Cost audit report as per The Companies (Cost Audit Report) Rules, 2011
2. Optional attachment(s) - if any

**Attach**

**Attach**

List of attachments

**Remove attachment**

**Verification :**

To the best of my knowledge and belief, the information given in this form and its attachments is correct and complete.

- I have been authorised by the Board of directors' resolution  number  dated  (DD/MM/YYYY) to sign and submit this form.
- I am authorised to sign and submit this form.

**To be digitally signed by :**

Managing Director or director or manager or secretary (in case of an Indian company) or an authorised representative (in case of a foreign company)

**Digital Signatures**

\*Designation

\*Director identification number of the director or Managing Director; or Income-tax PAN of the manager or of authorised representative; or Membership number, if applicable or income-tax PAN of the secretary (secretary of a company who is not a member of ICSI may quote his/her income-tax PAN)

Director of the company

**Digital Signatures**

Director identification number of the director

\*Cost Auditor

**Digital Signatures**

Whether associate or fellow

Associate

Fellow

Membership number

**Modify**

**Check Form**

**Prescrutiny**

**Submit**

This e-form has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the filing company and the cost auditor

**Form-II**  
**FORM OF THE COST AUDIT REPORT**

[See rule 2 and rule 6]

I/We, ..... having been appointed as Cost Auditor(s) under Section 233B of the Companies Act, 1956 (1 of 1956) of ..... (mention name of the company) have its registered office at ..... (mention registered office address of the company) (hereinafter referred to as the company), have audited the books of account prescribed under clause (d) of sub-section (1) of section 209 of the said Act, and other relevant records in respect of the ..... (mentions name/sofproductgroup/s) fortheperiod/year..... (mention thefinancialyear) maintained by the company andreport, in additiontomy/our observations and suggestions in para 2.

- (i) I/We have/have not obtained all their formation and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.
  - (ii) In my our opinion, proper cost records, as per Companies (Cost Audit Report) Rules, 2011 prescribed under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956, have/have not been maintained by the company so as to give a true and fair view of the cost of production/operation, cost of sales and margin of the product/activity groups under reference.
  - (iii) In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.
  - (iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 1956, in the manner so required.
  - (v) In my/our opinion, the said books and records are/are not in conformity with the Cost Accounting Standards issued by The Institute of Cost and Works Accountants of India, to the extent these are found to be relevant and applicable.
  - (vi) In my/our opinion, company has/has not adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
  - (vii) Detailed unit-wise and product/activity-wise cost statements and schedules there to in respect of the product groups/activities under reference of the company duly audited and certified by me/us are/are not kept in the company.
  - (viii) As required under the provisions of The Companies (Cost Audit Report) Rules, 2011, I/we have furnished Performance Appraisal Report, to the company, on the prescribed form.
2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

Dated : this \_\_\_\_ day of \_\_\_\_\_ 20\_\_  
at \_\_\_\_\_ (mention name of place of signing this report)

Signature & Seal of the Cost Auditor (S)  
Membership Number (S)

**Notes :**

1. Delete words not applicable.
2. If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant para (i) to (viii) only in the prescribed form of the Cost Audit Report giving details of discrepancies he has come across.
3. The report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

## ANNEXURE TO THE COST AUDIT REPORT

[See rule 2 and rule 6]

### 1. General Information :

1. CIN or GLN of the company:
2. Name of the company:
3. Registered office address:
4. Corporate office address:
5. E-mail address of the company:
6. Company's financial year to which the Cost Audit Report relates:
7. Name, address, membership number and e-mail of the Cost Auditor(s) :
8. SRN Number and date of Filing of Form 23C with the Central Government :
9. Date of Board of Directors' meeting wherein the Annexure to the cost audit report were approved:
10. No. of Audit Committee meetings held by the company, and attended by the Cost Auditor during the

### 2. Cost Accounting Policy :

(1) Briefly describe the cost accounting policy adopted by the Company keeping in view the requirements of the Companies (cost Accounting Records) Rules, 2011, the Companies (Cost Audit Report) Rules, 2011, cost accounting standards and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realization and margin of the product/activity groups under reference separately for each product/activity group. The policy should cover, inter alia, the following areas :

- (a) Identification of cost centres/cost objects and cost drivers.
- (b) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components.
- (c) Accounting, allocation and absorption of overheads
- (d) Accounting for Depreciation/Amortization
- (e) Accounting for by-products/joint-products, scraps, wastage etc.
- (f) Basis for Inventory Valuation
- (g) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.
- (h) Treatment of abnormal and non-recurring costs including classification of other non-cost items.
- (i) In case the Company has adopted IFRS, variations (if any) in treatment of cost accounting arising out of adoption of IFRS in Financial Accounting.
- (j) Other relevant cost accounting policy adopted by the Company

(2) Briefly specify the changes, if any, made in the cost accounting policy for the product/activity group(s) underaudit during the current financial year as compared to the previous financial year.

(3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

**3. Product Group Details (for the company as a whole)**

Sno.	Name of each Product Group	Names of Product/Activities included in the product Group	Net Sales (net of taxes, duties, etc.) (Rs. Lakh)	Covered under Cost Audit
				(Yes/No)
<b>A</b>	<b>Manufactured Product Groups</b>			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (A)			
<b>B</b>	<b>Services Groups</b>			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (B)			
<b>C</b>	<b>Trading Activities (Product Group-wise)</b>			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (C)			
<b>D</b>	<b>Other Income</b>			
<b>E</b>	<b>Total Income as per Audited Annual Report (A+B+C+D)</b>			

**Notes :**

- (1) For manufactured product groups, use the nomenclature as used in the Central Excise Act and Rules, as applicable.
- (2) For service groups, use the nomenclature as used in the Finance Act / Central Service Tax Rules, as applicable.

**4. Quantitative Information (for each product group separately)**

Name of the Company			
Name of the Product Group			
Name of the Products covered in the Product Group			
Financial Year		From _____ To _____	
<b>Particulars</b>	<b>Unit</b>	<b>Current Year</b>	<b>Previous Year</b>
<b>1. Available Capacity</b>			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Capacity available through leasing arrangements, if			
(d) Capacity available through loan license/third parties			
(e) Total available Capacity			
<b>2. Actual Production</b>			
(a) Self manufactured			
(b) Produced under leasing arrangements			
(c) Produced on loan license/by third parties on job work			
(d) Total Production			
<b>4. Production as per Excise Records</b>			
<b>4. Capacity Utilization (in-house)</b>			
<b>5. Stock Purchased for Trading</b>			
(a) Domestic Purchase			
(b) Imports			
(c) Total Purchases			
<b>6. Stock &amp; Other Adjustments</b>			
(a) Change in Stock of Finished Goods			
(b) Self/Captive Consumption (incl. samples etc.)			
(c) Other Quantitative Adjustments, if any (wastage etc.)			
(d) Total Adjustments			
<b>7. Total Available Quantity for Sale [2(e) + 5(c) - 6(d)]</b>			
<b>8. Actual Sales</b>			
(a) Domestic Sales (manufacturing)			
(b) Domestic Sales (trading)			
(c) Export Sale (manufacturing)			
(d) Export Sale (trading)			
(e) Total Quantity Sold			

## 5. Abridged Cost Statement (for each product group separately)

Sno.	Particulars	Units	Quantity (Rs.)	Rate (Rs.)	Amount	Rate per unit (Rs.)	
						Current Years	Previous Year
1	Materials Consumed (specify details)						
	(a) Indigenous Purchased						
	(b) Imported						
	(c) Self Manufactured / Produced						
2	Process Materials/Chemicals (specify)						
3	Utilities (specify details)						
4	Direct Employees Cost						
5	Direct Expenses						
6	Consumable Stores & Spares						
7	Repairs & Maintenance						
8	Quality Control Expenses						
9	Research & Development Expenses						
10	Technical know-how Fee / Royalty, if any						
11	Depreciation/Amortization						
12	Other Production Overheads						
13	Total (1 to 12)						
14	Add/Less : Work-in-Progress Adjustments						
15	Less : Credits for Recoveries, if any						
16	Primary Packing Cost						
17	Cost of Production/Operations (12 + 13 to 17)						
18	Increase/Decrease in Stock of Finished Goods						
19	Less : Self/Captive Consumption (incl. Samples, etc.)						
20	Other Adjustments (if any)						
21	Cost of Production/Operation of Goods/Services Sold (17 + 18 to 20) 22 Administrative Overheads						
23	Secondary Packing Cost						
24	Selling & Distribution Overheads						
25	Interest & Financing Charges						
26	Cost of Sales (21 + 22 to 25)						
27	Net Sales Realization (Net of Taxes and Duties)						
28	Margin [Profit/(Loss) as per Cost Accounts] (27 - 26)						
	<b>Notes</b>						
1.	Separate cost statement shall be prepared for each product/activity group						
2.	The items of cost shown in the Proforma are indicative and the same should be reflected keeping in mind the materiality of the item of cost in the product/activity group.						
3.	The Proforma may be suitably modified to meet the requirement of the industry/product/activity group.						
4.	In case the company follows a pre-determined or standard costing system, the above cost statement should reflect figures at actuals after adjustment of variances, if any.						



**6. Operating Ratio Analysis (for each product group separately)**

Sno.	Particulars	Units	Current Year	Previous Year-1	Previous Year-2
	<b>Ratio of Operating Expenses to Cost of Sales</b>				
1	Materials (incl. Process Materials) Cost	%			
2	Utilities Cost	%			
3	Direct Employees Cost	%			
4	Direct Expenses	%			
5	Consumable Stores & Spares	%			
6	Repairs & Maintenance Cost	%			
7	Depreciation/ Amortization Cost	%			
8	Packing Cost	%			
9	Other Expenses	%			
10	Stock Adjustments	%			
11	Production Overheads	%			
12	Administrative Overheads	%			
13	Selling & Distribution Overheads	%			
14	Interest & Financing Charges	%			
15	Total	%			

**7. Profit Reconciliation (for the company as a whole)**

Sno.	Particulars	Current Year	1st Previous Year	2nd Previous Year
1	Profit or Loss as per Cost Accounting Records			
	(a) For the audited product groups			
	(b) For the un-audited product groups			
2	Add : Incomes not considered in cost accounts:			
	(a) (specify)			
	(b)			
	(c)			
	(d)			
	(e)			
3	Less: Expenses not considered in cost accounts:			
	(a) (specify)			
	(b)			
	(c)			
	(d)			
	(e)			
4	Add : Overvaluation of closing stock in financial accounts			
5	Add : Undervaluation of opening stock in financial accounts			
6	Less : Undervaluation of closing stock in financial accounts			
7	Less : Overvaluation of opening stock in financial accounts			
8	Adjustments for others, if any (specify)			
9	Profit or Loss as per Financial Accounts			

## 8. Value Addition and Distribution of Earnings (for the company as a whole)

(Rupees in Lakh)

Sno.	Particulars	Current Year	Previous Year-1	Previous Year-2
	<b>Value Addition :</b>			
1	Gross Sales (excluding returns)			
2	Less : Excise duty, etc.			
3	Net Sales			
4	Add : Export Incentives			
5	Add/Less: Adjustment in Finished Stocks			
6	Less: Cost of bought out inputs			
	(a) Cost of Materials Consumed			
	(b) Process Materials/Chemicals			
	(c) Consumption of Stores & Spares			
	(d) Utilities (e.g. power & fuel)			
	(e) Others, if any			
	Total Cost of bought out inputs			
7	Value Added			
8	Add: Income from any other sources			
9	Earnings available for distribution			
	<b>Distribution of Earnings to :</b>			
1	Employees as salaries & wages, retirement benefits, etc.			
2	Shareholders as dividend			
3	Company as retained funds			
4	Government as taxes (specify)			
5	Others, if any (specify)			
	Total distribution of earnings			

## 9. Financial Position and Ratio Analysis (for the company as a whole)

Sno.	Particulars	Units	Current Year	Previous Year-1	Previous Year-2
<b>A.</b>	<b>Financial Position</b>				
1	Paid-up Capital	Rs/Lakh			
2	Reserves & Surplus	Rs/Lakh			
3	Loans (secured & unsecured)	Rs/Lakh			
4	(a) Gross Fixed Assets	Rs/Lakh			
	(b) Net Fixed Assets	Rs/Lakh			
5	(a) Total Current Assets	Rs/Lakh			
	(b) Less: Current Liabilities & Provisions	Rs/Lakh			
	(c) Net Current Assets	Rs/Lakh			
6	Capital Employed	Rs/Lakh			
7	Net Worth	Rs/Lakh			
<b>B.</b>	<b>Financial Performance</b>				
1	Cost of Production	Rs/Lakh			
2	Cost of Sales	Rs/Lakh			

Sno.	Particulars	Units	Current Year	Previous Year-1	Previous Year-2
3	Net Sales	Rs/Lakh			
4	Value Added	Rs/Lakh			
5	Profit before Tax (PBT)	Rs/Lakh			
<b>C. Profitability Ratios</b>					
1	PBT to Capital Employed (B5/A6)	%			
2	PBT to Net Worth (B5/A7)	%			
3	PBT to Net Sales (B5/B3)	%			
4	PBT to Value Added (B5/B4)	%			
<b>D. Other Financial Ratios</b>					
1	Debt-Equity Ratio	%			
2	Current Assets to Current Liabilities	%			
3	Value Added to Net Sales	%			
<b>E. Working Capital Ratios</b>					
1	Net Working Capital to Cost of Sales excl. depreciation	Months			
2	Raw Materials Stock to Consumption	Months			
3	Stores & Spares to Consumption	Months			
4	Work-in-Progress Stock to Cost of Production	Months			
5	Finished Goods Stock to Cost of Sales	Months			

**Notes:**

- Capital Employed** means average of net fixed assets (excluding intangible assets, effect of revaluation of fixed assets, and capital work-in-progress) plus net current assets existing at the beginning and close of the financial year.
- Net Worth** means share capital plus reserves and surplus (excluding revaluation reserves) less accumulated losses and intangible assets.

**10. Related Party Transactions (for the company as a whole)**

Sno.	Name & Address of the Related Party	Name of the Product/ Service Group	Nature of Transaction (Sale, Purchase, etc.)	Quantity	Transfer Price	Amount	Normal Price	Basis adopted to determine the Normal Price
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								
11.								
12.								
13.								

Sno.	Name & Address of the Related Party	Name of the Product/ Service Group	Nature of Transaction (Sale, Purchase, etc.)	Quantity	Transfer Price	Amount	Normal Price	Basis adopted to determine the Normal Price
14.								
15.								
16.								
17.								
18.								
19.								
20.								

**Notes :**

1. Details should be furnished for each sale/purchase separately.
2. Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.

**11. Reconciliation of Indirect Tax (for the company as a whole)**

Particulars	Assessable Value	Excise Duty	Service Tax	Cess & Others	VAT
<b>Total Clearances</b>					
Domestic					
Export					
Stock Transfers (Net)					
Others, if any					
Total Duties/Taxes Payable					
Duties/Taxes Paid					
Cenvat/VAT Credit Utilised – Inputs					
Cenvat/VAT Credit Utilised – Capital Goods					
Cenvat/VAT Credit Utilised – Input Services					
Cenvat/VAT Credit Utilised – Others					
Total					
Paid through PLA/Cash					
Total Duties/Taxes Paid					
Duties/Taxes Recovered					
Difference between Duties/Taxes Paid and Recovered					
Interest/Penalty/Fines Paid					

SIGNATURE  
NAME  
COST AUDITOR (S)  
MEMBERSHIP NUMBER (S)  
SEAL  
DATE

SIGNATURE  
NAME  
COMPANY SECRETARY/DIRECTOR  
MEMBERSHIP/DIN NUMBER  
STAMP  
DATE

SIGNATURE  
NAME  
DIRECTOR  
DIN NUMBER  
STAMP  
DATE

**Notes :**

1. Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit, reasons thereof shall be given by the Cost Auditor.
2. Wherever, duration of the current year or the previous year is not 12 (twelve) months, same shall be clearly indicated in the Report.

## FORM-III

### FORM OF THE PERFORMANCE APPRAISAL REPORT

Name of Company : \_\_\_\_\_ Period of Report : \_\_\_\_\_  
 (indicative list of areas to be covered in the report)

1. Capacity Utilization Analysis
2. Productivity/Efficiency Analysis
3. Utilities/Energy Efficiency Analysis
4. Key-Costs & Contribution Analysis
5. Product/Service Profitability Analysis
6. Market/Customer Profitability Analysis
7. Working Capital & Inventory Management Analysis
8. Manpower Analysis
9. Impact of IFRS on the Cost Structure, Cash-Flows and Profitability
10. Application of Management Accounting Tools

Date : \_\_\_\_\_

Place : \_\_\_\_\_

Signature of the Cost Auditor(s)

Membership Number(s)

#### Notes :

1. Areas included in this form are indicative; these are to be included/excluded depending upon the size/scale and type of operations, nature of the industry, management requirements, etc.
2. Frequency of this report viz. half yearly/annual to be decided by the Company Management.

## MANAGEMENT DEVELOPMENT PROGRAMMES 2011-12



### THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament)

#### Management Development Programmes 2011-12

Dates	Topic	Venue	Status & Fee (Rs.)	
			Non-Residential	
<b>August, 2011</b>				
03 - 05	Management of Taxation - Service Tax, VAT, Excise & Customs, TDS and Proposed GST & DTC	Kolkata	15,000	33,000
09 - 12	Finance for Jr. Finance and Accounts Officers and Non-Executives (F & A)	Madurai		33,000
09 - 12	Advance Tax, TDS & Tax Planning	Madurai		
18th	Proposed DTC	New Delhi	4,000*	33,000
19th	Proposed GST	New Delhi	4,000*	
24 - 28	Certificate Course on IFRS and Converged Indian Accounting Standards	Hyderabad		
<b>September, 2011</b>				
06 - 09	Internal Auditing for Effective Management Control	Port Blair		35,000
06 - 09	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Port Blair		35,000
21 - 25	Certificate Course on IFRS and Converged Indian Accounting Standards	Bangalore	25,000	
22nd	Proposed DTC	Chennai	4,000*	
23rd	Proposed GST	Chennai	4,000*	
<b>October, 2011</b>				
18 - 21	Contract Management	Goa		33,000
18 - 21	Corporate Tax-Planning, Compliance and Management	Goa		33,000
<b>November, 2011</b>				
02 - 06	Certificate Course on IFRS and Converged Indian Accounting Standards	Kolkata	25,000	
15 - 18	Advance Tax, TDS & Tax Planning	Hyderabad	15,000	33,000
15 - 18	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Hyderabad	15,000	33,000
15 - 25	International Programme on 'Emerging Trends in Financial Management.	Singapore Kualalumpur & Bangkok		2,50,000
<b>December, 2011</b>				
13 - 16	Finance for Jr. Finance and Accounts Officers and Non-Executives (F & A)	Shirdi		33,000
13 - 16	Management of Taxation - Service Tax, VAT, Excise & Customs, TDS and Proposed GST & DTC	Shirdi		33,000
22nd	Proposed DTC	Kolkata	4,000*	
23rd	Proposed GST	Kolkata	4,000*	
<b>January, 2012</b>				
03 - 06	Internal Auditing for Effective Management Control	Mahabaleshwar		33,000
03 - 06	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Mahabaleshwar		33,000
5th	Proposed DTC	Hyderabad	4,000*	
6th	Proposed GST	Hyderabad	4,000*	
17 - 20	Strategic Financial Management	Agra		33,000
17 - 20	Advance Tax, TDS & Tax Planning	Agra		33,000

Dates	Topic	Venue	Status & Fee (Rs.)	
			Non-Residential	Residential
<b>February, 2012</b>				
09 - 10	Valuation Management	New Delhi	15,000	
21 - 24	Corporate Tax-Planning, Compliance and Management	Bhubaneswar		33,000
21 - 24	Strategic Cost Management	Bhubaneswar		33,000
23 - 24	Financial Risk Management	New Delhi	15,000	

Note : \* Rs. 7000/- if any nomination is for both the programmes together.

For Non-Residential Programmes – Fee includes course fee, course material, lunch, tea/ coffee etc.

For Residential Programmes – Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.

CEP Credit Hours – [For 1 Day Prog. - 4 Hours] [For 2 Days Prog. - 6 Hours] [For 3 Days more Prog. - 10 Hours]

#### For Kind Information

- For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
- For residential programmes normally the first day check-in at 12.00 noon and last day check-out at 12.00 noon.
- For International programmes, Faculty will be from the respective countries apart from the Indian Faculty.
- The Payment of the Fee is to be made by Cheque / DD in favour of 'The Institute of Cost and Works Accountants of India' payable at New Delhi.
- Details for ECS Payment: State Bank of India (60321), Andhra Association Building, Institutional Area, Lodhi Road, New Delhi -110003 Current A/c No.: 30678404793 MICRCode : 110002493 IFSCCode : SBIN0060321

#### *For further details and Registration please contact :*

**Shri D. Chandru, Addl. Director (CEP)**

**The Institute of Cost and Works Accountants of India**

ICWAI Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003  
 Phones : 011-24622156-57-58, 24618645 (D) 011-24643273 (M) 09818601200  
 Tele-Fax : 011-43583642/24622156/24618645

E-mail : mdp@icwai.org, cep.chandru@icwai.org Website : www.mdp.icwai.org, www.icwai.org

President

**Shri Brijmohan Sharma**

#### For Attention of Members

#### Payment for Annual Membership Fee for 2011-2012

The Annual Membership Fee for 2011-2012 for all Associate and Fellow Members of the Institute has become due and payable on 1<sup>st</sup> April, 2011 at the following rates:

Associate Annual Membership Fee : Rs.500/- (Rs. 125/- for members entitled to pay at reduced rate)  
 Fellow Annual Membership Fee : Rs.1000/- (Rs.250/- for members entitled to pay at reduced rate)

All members are requested to pay their respective membership fees along with arrears, if any, immediately and **not later than 30<sup>th</sup> September, 2011.**

The fees may be paid by Cash/Demand Draft/Cheque at the Headquarters/Regional Council offices/ Chapters of the Institute. The Demand Draft/Cheque should be drawn in favour of "The ICWA of India" and payable at Kolkata. In case of outstation cheque Rs.30/- is to be added towards Bank Charges.

**NOTE : MEMBERS SHOULD ENSURE TO INDICATE THEIR NAME AND MEMBERSHIP NO. ON THE REVERSE OF CHEQUE/DEMAND DRAFT TO BE DRAWN IN FAVOUR OF "THE ICWA OF INDIA" PAYABLE AT KOLKATA IN CASE PAYMENT IS RENDERED BY CHEQUE/DEMAND DRAFT, IT SHOULD ALSO BE ENSURED NOT TO ENCLOSE ANY OTHER INTIMATION ETC. ALONG WITH THE REMITTANCE OF MEMBERSHIP FEE.**

## THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

12, Sudder Street, Kolkata - 700 016

### NOTIFICATION



**Cancellation of Registration under Regulation 25(1) of CWA Act, 1959  
Registration Numbers Cancelled  
For December-2011 Examination**

**UPTO**

**ERS/002802, NRS/004400 (except 4033, 4047, 4049-4105), 4695-4700**

**SRS/009075, WRS/006806, RSW/077893, RAF/005855**

### RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 30th June 2004) as above but desire to take the Institute's Examination in December-2011 must apply for **DE-NOVO** Registration and on being Registered DE-NOVO, **Exemption** from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of THE ICWA OF INDIA, payable at Kolkata.

Date : 21st June, 2011

**ARNAB CHAKRABORTY  
DIRECTOR OF STUDIES**

### CO-BRANDED CREDIT CARD FACILITY

The Institute has entered into MOU with Punjab National Bank (PNB) in the matter of introducing a Co-branded Credit Card for the members of the Institute with hologram of ICWAI and PNB. Only members of the Institute can make applications for this credit card.

Members will have to attach any of the following self attested documents along with their application forms :

- Address proof - Copy of Passport/Voter ID/Driving License
- Copy of PAN Card
- Copy of IT Return
- Two passport size photographs
- Copy of Membership Card of the Institute