Cost Consciousness

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Any time we hear an outcry on account of some exorbitant price rise, we are alerted and start shouting about it along with the concerned affected persons. We do not realize, however, that we label such price rise as exorbitant, we do not give real thoughtful judgment on what is 'exorbitant' and what is 'reasonable'. We find in any thinking of reasonable price, we just cannot ignore what is the basic Cost of any such product or service. As a consumer, we are always sensitive to prices of daily consumption items like petrol, sugar, milk, vegetables, tooth paste and cosmetics, medicines, onions, and services like Education Fees, Bus/Train fares, Taxi fares, Air fares, Healthcare/Hospital charges.

Price Regulation

When we have readiness to pay for 'reasonable' price for anything, we expect the Govt. or regulatory authority to impose price control, at least for essential items – products and services. As a Consumer, when we have right to information, we should exert and expect to know about Cost of such essential products and services. While resisting the 'surge' pricing mechanism of OLA and UBER Taxi operators, we had this obvious argument that nobody should be allowed to exploit the situation arising out of shortage of taxies on road or rise in demand during peak hours. Consequently, nobody should be allowed to do profiteering by surge pricing – exploiting the situation. The reasonable taxi fare should remain constant as a Rule. But what is reasonable cannot be judged unless the basic cost of product or services, is first ascertained and made known to all stakeholders. Predatory pricing for killing competition and Price-dumping for capturing market is prohibited even in international market under Anti-dumping regulation by WTO. The Anti-dumping cases in international Courts, also require Cost data as supportive argument. In view of this, it is obvious that for any price and tariff fixation, it is essential to work out the Cost of product or service and then calculate the price, that gives reasonable margin to producer or service provider.

Cost Ascertainment

When we are individually making any management decision, cost based analysis and comparisons are automatically happening at the back of our mind. Individual decisions, though cost based, have very little impact on the economy. Even if we go wrong in cost calculation or in our judgment or decision, the adverse impact of such error is not very significant. However, if a wrong judgment is made by Corporate management having thousands of crores of turnover, the economic impact of such error, may become disastrous for one or many stakeholders of corporate management.

It is precisely for this reason, a basic, scientific, cost data recording, compilation, ascertainment, presentation, authentication and audit of cost records, is very important in Corporate Governance. For this reason, Companies Act, 2013 under section 148, provides for mandatory maintenance of cost records by certain class of companies. It is suggested that the compulsory cost records and annual authentication of cost records by way of Cost audit, should be extended to cover all Listed companies, MNCs, FMCG and all borrowing companies. Apart from authenticated Cost Sheet, cost audit report covers the report on Indirect Tax payments, Value Addition and Financial ratio analysis of the company. A special report on Performance Appraisal of the company, will help the management to introduce improvements.

Cost consciousness in Corporate Governance

Apart from Cost audit under the Companies Act, 2013, we are required to introduce culture of Cost Consciousness. At every stage in Corporate management, we should develop habit of cost reduction, cost control, wastage control, productivity/performance improvement, cost effectiveness, cost efficiency. A separate subject, academic discipline, setting of standards for accounting and working of cost, is available through the professional Cost and Management Accountant (CMA). In India, we have The Institute of Cost Accountants of India, established under an Act of Parliament, regulating the profession of CMAs.

In any economic calculation or Accounting, everybody aims at maximizing profit under the formula Sales – Cost = Profit. When sales are dependent on market conditions, the only factor influencing the profit is the Cost factor. If we reduce cost, control cost, optimize costs in working and operations of the company, we can maximize profit. A systematic approach under CMA discipline, is a great support for Corporate Governance. The recent developments in tools and techniques of costing such as Activity Based Costing, Life Cycle costing, Target costing etc. help the management and also the consumers and the economy. The data base created under Cost records, not only support management decision making, but will also support Consumers' right to information about costing of each product and guard against profiteering in many products and activities and services.

Cost Audit

Annual cost audit is like annual health check up, done for timely diagnosis and treatment and remedies. We find that in India, even the safeguarding item like helmet is not used by Motor-bike drivers. The safety measures are adopted, if and when the Road Transport Authority imposes wearing of helmet as a rule. Similarly, the useful exercise of Annual Cost Audit is not taken seriously and not implemented for company's own benefit, unless the same is imposed by statutory provisions. The existing statutory cost audit, therefore, should be extended to all Listed companies, borrowing companies, MNCs etc.

Mistake of neglecting Cost Management

Lastly, I come to broad and general observations about Economic Management of any company, industry, Govt. policy formulation etc. In Management subject we have a maxim saying "What cannot be measured cannot be managed". That gives rise to a valuable discipline of "Accounting" for recording of Rupee count of each and every transaction. But in Indian economic entities – Government, Corporate and non-corporate entities, "Accounting" is primarily aimed at legal compliance under Corporate laws, Tax laws, and other legal impositions. No body keeps the Accounts on his own and for his own benefit or own Performance evaluation. Own benefit means Management's own self introspection. The Management Accounting or particularly Cost Management is a tool for looking at oneself in terms of self-evaluation. Management Accounting presents a Mirror in front of the Management, to look at it for oneself. Management Accounting is presentation of inside, confidential, activity, process or productwise position to Management for its own evaluation, questioning, improving, optimization and useful support system for decision making. In India, instead of such support system, the whole "Accounting" profession revolves around the Compliance, Regulation, Taxation, Reporting (including Window Dressing), Audit (verification of written evidence of Rupees), and does not look at the internal, written or unwritten facts, quantities, or Performance. The Management obviously, is interested in Performance Accounting. For that, the only essential, useful framework is Management Accounting. All private, corporate entities, therefore, have to devise their own framework of Management Accounting and offer its own Performance for Appraisal by an inedependent evaluator - Cost Management Auditor (CMA) as an Annual Health Check up exercise. To support Public interest, the Corporate Law should introduce necessary regulation for Cost Audit of all Listed companies, MNCs and Borrowing companies.