Role of a cost accountant in a commercial bank

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Banking functions are crucially dependent for their success on Cost Accountants. A narration.

From 1992 when the banking sector ushered to the era of re forms the banks have been progressing towards global integration of financial services which calls for greater efficiency to face competition. The business strategies necessitate changes in the organizational structure of the banks and re-orientation of their policy, procedure and systems.

To compete with the competitors, all the banks are striving to introduce/ develop a wider range of products which are possible only because of advancement in Information Technology (IT), For this technology the banks can take the services to the doorstep of the customers through PC banking, A'I'M banking, Electronic Fund Transfer, Electronic Clearing system etc. development of all type of complex products are possible only due to IT.

A cost Accountant having wider range of knowledge and information can render his services in a better manner in comparison to the other professionals. Cost Accountancy, can be considered as a combination of finance and technology. When there is a change in the concept of banking a cost accountant can specifically render his services in the following areas :-

I) **Project Appraisal:** A Cost Accountant can share his expertise as to different types of project under Balancing, Modernization, Replacement, Expansion and Diversification and their need in the background of economic environment. Selection of the projects' from the angle of Macro parameters and other organizational consideration. A Cost Accountant in addition to project appraisal, from the point of technical, economic, organizational, managerial, commercial and financial aspects, can analyse social cost benefit, economic rate of return. The impact of tax because of different sources of finance particularly the bank loan. His judgement would be more critical and judicious.

2) **Working Capital Financing:** Out of the total advance of the banks nearly 70% are working capital finance, so in every bank the credit department is exclusively busy with sanction/review/monitoring of their cash credit/ overdraft accounts. A cost accountant has mastery over the inventory management which is a part and parcel of working capital finance. Particularly in case of a new unit, management of working capital under different components is of paramount importance where a cost accountant can success-

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fully assess the level of inventory in commensurate with the production target.

3) **Valuation of Assets:** After implementation of prudential. Accounting norms it is now mandatory that the statement of assets and liabilities must be transparent. In one side when there is depreciation in the value of assets, assets are to be shown at depreciated value, similarly, if there is any increase in the value of real estate those can be shown as revalued assets. The work of revaluation of real estate assets can be comfortably done by the cost accountant. Accordingly, those assets (immovable) which are mortgaged with the bank can be evaluated by a cost accountant who would help a bank to change the value of security. The provisioning as per RBI directives can also be done correctly on the basis of correct evaluation of security. This will help the bank to ascertain the correct financial results.

4) **Stock Audit:** As per RBI directives stock audit in case of advance of Rs. 1 crore and above compulsory at least once in a year. In an Industrial Unit inventory consists of stock of Raw materials, stock of work-in-process and stock of finished goods. The overall limit is compartmentalized into different types of stock. A cost accountant is specialized in evaluation of stock particularly process stock. Process stock evaluation can be done perfectly by the cost accountants. In number of cases it has been observed that to attract drawing power the borrowing unit inflated the stock in process which can not be correctly evaluated by a layman. Hence this is the area where the services of a cost accountant can be effectively utilized.

5) **Use of Technology:** To combat severe competition and also for diversification of products the banking industry is gradually depending upon the Information Technology (IT) more and more. Since the banking industry is dealing with money there is every possibility of misappropriation, fraud, forgery etc, Manual works were supervised manually by the supervisors where the control aspects were lengthy but a chance of leakage was minimum and after introduction of IT it has changed just opposite. Supervision is easy but chances of leakage are high, The reasons have been multiplied due to the fact that in the banking sector the people who know banking due to their vast experience are less acquainted with the computers and those who are new entrants they know computer operation but have a little knowledge in banking. As a result of which the use of computer have two-fold problems one is chances of error (system failure) and the other is fraud. A cost accountant having a mixture of knowledge in finance and technology can introduce and monitored the internal control system by which the safety of data and control over operation is possible to avoid fraud,

6) **Fixation of price:** After deregulation all the banks are now free to fix up its own Prime Lending Rate (PLR) and the rate of service charges for different types of services rendered by the banks to its customers. It can be summarily said, loan pricing and services pricing are to be done by the banks with the approval of their board. It is a well known phenomenon that a cost accountant is the right person for fixation of price. In the present day context when there is a stiff competition price is not regulated by RBI. To cope with this problem all the banks are to know on a regular basis (1) Cost of deposits (2) Cost of operation. Till to-day in banking industry the system of costing has not been properly introduced rather all the decision are taken on the basis of historical total cost for which though there is a declared PLR of all the banks but prime borrowers are offered by the banks at a far below rate of interest than that of PLR Therefore, practically, the PLR is simply applicable as a bench mark for the borrowers whose credit rating are not up to the mark. In view of the same the Assets Liability Management committee is also facing a serious problem in matching the interest rate risk. A team of cost accountants can be deployed in each bank to ascertain the cost of deposits and cost of operations in a regular manner and this should be reported to the authority for taking decision in respect of loan and service pricing. This can also help the management to understand the area where there is abnormal cost and the ways and means to control the same.

7) **Internal Control:** Internal Audit is an independent activity designed to improve the bank's operations. Now it has become clear that periodic assessment based on transaction testing alone cannot keep pace with the rapid changes occurring in financial risk profiles. The internal audit department should pay special attention to audit the banking activity, through which the activity is undertaken. To achieve these

objyctives, banks are gradually moving towards risk focused auditing in addition to the system of selective transaction based auditing. The implementation of risk based auditing would mean that greater emphasis is placed on the internal auditor's role of mitigating risks. Therefore, for the banks the major task is the orientation of organizational set up in line with the recommendations for bank level preparation. The four primary areas of internal control under Risk Based Supervision include (a) Organizational structure with defined duties and responsibilities (b) Accounting procedures (Reconciliation, Control list, periodical trial balance etc. (c) The "four eyes" principle (d) Physical control over assets and investments,

In the above areas particularly in market risk aspects a cost accountant would be capable to identity the risk involved in each area with the help of his knowledge about advanced aspects of arbitrage pricing theory, risk adjustment using the certainty equivalent method, investment control etc. He would also be able to guide the management in respect of credit risk management.

The old concept that cost accountants are essential only for production units does not hold good now. A cost accountant is now also a management accountant and he can function as ears and eyes of the management. When there is shift in the concept of supervision, regulation and monitoring it is of great importance that the internal staffing should be strengthened to fill up the gaps. The banks top management may think over the matter as to utilization of Cost Accountant in the industry in a better manner.

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