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CAS AND COMPANIES ACT 2013

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ABSTRACT

The introductions of Cost Accounting Standards (CAS) and the Companies Act 2013 have brought spectacular changes in cost accounting profession in recent years. The ministry of corporate affairs (MCA) has been also trying to give due importance to the profession in our country. The present study highlights –

- (i) The Importance of cost audit and cost accounting profession in our present scenario of our country and the role of cost auditor as recognised by the Institute of Cost Accountants of India (ICAI),
- (ii) The Importance and need of cost accounting standards,
- (iii) The Role of the Cost Audit and Assurance Standards Board (CAASB) in India in the process of formulation and introduction of CAS,
- (iv) The present status of cost accounting standards,
- (v) Introduction of the new Company's Act 2013 recognising the importance of cost accounting profession in India ;

And at the end the paper offers a few comments on the issue and concludes.

It may be pointed out that the sub-section (3) of section 148 of the Companies Act, 2013 gave the statutory mandate for separate auditing standards for audit of cost records as distinct from auditing standards applicable for audit of financial records. It stipulates that the auditor conducting the cost audit shall comply with the cost auditing standards which are issued by the ICAI, with the approval of the Government of India. It also highlights- (i) requirement of cost audit, (ii) appointment of cost auditor, (iii) qualification, disqualification, rights and duties of

cost auditors, (iv) duty of companies, (v) punishment for contradiction in case of company, and (vi) punishment for contradiction in case of cost auditor, in category basis.

KEYWORDS: *Cost Accounting, Company's Act, business environment, auditor, business organizations.*

INTRODUCTION

ICAI has expressed reservations on the cost audit draft rules, under the new Companies Act. Raising concerns over proposal to relax eligibility norms for cost audit of companies, the umbrella organization of cost accountants today urged the government to modify the draft rules, especially since the planned criteria excludes small and medium enterprises.

The Institute of Cost Accountants of India (ICAI) expressed reservations on the cost audit draft rules, under the new Companies Act, released by the Corporate Affairs Ministry on November 21, 2013. Going by the draft rules, the threshold limits for companies required to carry out cost audit has been increased. The threshold limit for net worth of companies has been increased to Rs 500 crore from existing Rs 5 crore, while that for turnover has been raised to Rs 100 crore from Rs 20 crore. ICAI President Suresh Chandra Mohanty in a statement said the institute would take up the matter "at all levels" to modify the draft rules before notification. Citing the increase in threshold limits, the institute said the draft rules have excluded companies operating in SME (Small and Medium Enterprise) sector. It is also realized that in the absence of an effective cost management system, India will lose out to neighboring countries.

Noting that an effective cost accounting system is itself a risk management mechanism, Mohanty said it also helps in detecting frauds. According to him, the draft rules "fail to reflect the necessity and importance of mandatory requirement for maintaining cost accounting records and cost audit in a market economy".

With due emphasis on effective cost accounting system supports the corporate governance mechanism, the draft rules does not answer the question why integrity of cost information is not important for independent directors and the company's board. The institute also observed that the Ministry ignored recommendations of the expert group on cost accounting system while framing the draft rules.

IMPORTANCE OF COST ACCOUNTING STANDARDS

IFAC's mission statement gives due emphasis to the public interest and recognizes that a fundamental way to protect this public interest is to develop, promote, and enforce internationally recognized standards as a means of ensuring the credibility of information upon which investors and other stakeholders depend. IFAC, therefore, strives to serve the public interest through the facilitation of the development of standards in auditing, education, ethics, and public sector financial reporting by:

- ↳ Advocating for transparency and convergence in financial reporting; and
- ↳ Implementing a membership compliance program.

IFAC also provides International Good Practice Guidance for professional accountants in business.

In line with this framework, and even prior to the foundation of IFAC, professional and regulatory bodies all over the world develop accounting standards based on generally accepted principles and practices followed in

their countries. These have been enforced through law, promoted by a regulatory mechanism, or voluntarily followed by all business entities. Standards help to ensure uniformity and consistency in the preparation and reporting of various financial statements.

Post-World War II, all economies, irrespective of their economic structure, started to lay much greater emphasis on cost accounting principles and ensured that all business organizations follow them, at the very least when dealing with the state. Cost accounting was developed as a separate discipline in accountancy, and promoted efficiency in resource utilization. Gradually, new skills developed in this field and it slowly attained a prime position in any organization's functioning.

IFAC's International Good Practice Guidance, Evaluating and Improving Costing in Organizations, highlights the importance of cost accounting to organizations:

- (i) The creation, operation, alteration, and cessation of every action and function in an organization, whether within the private, public, or voluntary sector—all incur costs.
- (ii) Costing—the accumulating and assigning of costs to the organization's various activities—enables the organization's cost structure to be understood, explained, and improved.

The guidance recognizes the importance of costing in assessing organizational performance in terms of shareholder and stakeholder value. It informs how profits and value are created, and how efficiently and effectively operational processes transform input into output. It includes product, process, and resource-related information covering the organization and its value chain.

Costing information provides feedback on past performance but should also be used effectively to motivate future performance.

In India, the Cost Accounting Records Rules set by the government for 44 industries deal with the various items of cost and the way in which they have to be reported in the Cost Statement in accordance with the cost accounting principles. Since there were no generally accepted cost accounting principles, these were left to be understood by each company or by each cost accountant, as they understand or with reference to the explanations given in various textbooks on the subject.

This led to adoption of practices with a lack of uniformity in preparation and presentation of cost statements. To promote uniformity, there was an urgent need to integrate, harmonize, and standardize the cost accounting principles and practices. Therefore, the Generally Accepted Cost Accounting Principles have been clearly defined and well documented in the form of the Cost Accounting Standards.

Moreover, it should be kept in mind that the Cost Accounting Standards:

- ◆ provide a structured approach to measurement of costs in manufacturing process or service industry;
- ◆ integrate, harmonize, and standardize cost accounting principles and practices;
- ◆ provide guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products and services;
- ◆ arrive at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;

- ◇ enable practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost statements; and
- ◇ assist in clear and uniform understanding of all the related issues by various user organizations, government bodies, regulators, research agencies, and academic institutions.

Facilitating and promoting uniformity and consistency not only helps in better understanding (e.g., clear and in a uniform manner) of all the related issues by companies and/or by the professional fraternity, but it also helps various user organizations, government bodies, regulators, research agencies, and academic institutions. Clearly defined and well-documented Generally Accepted Cost Accounting Principles govern a highly professional job that can only be done by the concerned professional bodies and individuals in India.

Precisely for these reasons, various national level institutes have issued or are in the process of issuing standards in areas under their domain. For example, the Institute of Chartered Accountants of India issues financial accounting and auditing standards; Institute of Company Secretaries of India issues secretarial standards; and the Institute of Cost Accountants of India issues cost accounting and audit standards. The Institute of Cost Accountants of India has assigned topmost priority for issuing all required cost accounting standards. These are prepared in consultation with all stakeholders.

The Cost Accounting Standards are principles based, deal with the principles of costing, and provide guidance on the preparation of General Purpose Cost Statements, which require attestation by the cost

accounting profession, wherever applicable. The Cost Accounting Standards Board (CASB) should also keep in focus the Generally Accepted Cost Accounting Principles and codify them so that with the passage of time, an accepted framework of can evolve and remain capable of adoption by all users of the standards, including industries, professionals, and other stakeholders.

The Cost Accounting Standards framework has been adopted by the CASB with the following structure:

1. **Introduction:** brief details about the topic and its role in the cost statements
2. **Objectives:** basic objective that necessitated the standard
3. **Scope:** scope of applicability
4. **Definitions:** terminology used in the standard
5. **Principles of Measurement:** principles behind the ascertainment, measurement, determination, and categorization of elements of cost
6. **Assignment of Costs:** basis of assignment of costs to the product or service and the generally accepted cost accounting principles behind such assignment
7. **Presentation:** essence of the standard and the prescriptive nature to be followed for any certification requirement
8. **Disclosure:** specific disclosures required in the presentation to provide clarity

The CASB has identified 39 areas for developing the CASs, which include the 22 standards so far. Of these, 21 areas relate to components of cost and the remaining 18 areas are on cost accounting methodologies. These areas are broadly in line with the Cost Accounting Records Rules already framed by the government and in vogue for different industries.

COST ACCOUNTING STANDARDS BOARD (CASB)

The Institute of Cost Accountants of India, recognizing the need for structured approach to the measurement of cost in manufacture or service sector and to provide guidance to the user organizations, government bodies, regulators, research agencies and academic institutions to achieve uniformity and consistency in classification, measurement and assignment of cost to product and services, has constituted Cost Accounting Standards Board (CASB) with the objective of formulating the Cost Accounting Standards.

The Expert Group constituted by Ministry of Corporate Affairs has specifically highlighted the need for developing Cost Accounting Standards on the basis of Generally Accepted Cost Accounting Principles. To address this issue the CASB is working hard to develop Cost Accounting Standards. The Board

has so far released 19 Cost Accounting Standards and document on Generally Accepted Cost Accounting Principles.

The structure of Cost Accounting Standard consists of Introduction, Objectives of issuing standards, Scope of standard, Definitions and explanations of the terms used in the standard, Principles of Measurement, Assignment of Cost, Presentation and Disclosure.

While formulating the Cost Accounting Standards, the CASB takes into consideration the applicable laws, usage and business environment prevailing in India. CASB also gives due consideration to the Cost Accounting Standards, principles and practices being followed by the other countries in the world. If due to subsequent changes in the law, a particular standard or any part thereof becomes inconsistent with such a law, the provisions of the said law shall prevail.

COST ACCOUNTING STANDARDS

The present status of cost accounting standards is summarized in the following table:

CAS No	Title	Objective
CAS1	Classification of Cost	For preparation of Cost Statements
CAS2	Capacity Determination	For determination of capacity
CAS3	Overheads	For Collection, Allocation, Apportionment and Absorption of overheads
CAS3 (Revised 2011)	Overheads	To bring uniformity and consistency in the principles and methods of determining the Overheads with reasonable accuracy.
CAS4	Cost of Production for Captive Consumption	To determine the assessable value of excisable goods used for captive consumption.
CAS5	Average (equalized) Cost of Transportation	To determine averaged/equalized transportation cost
CAS6	Material Cost	To bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy in an economically feasible manner.
CAS7	Employee Cost	To bring uniformity and consistency in the principles and methods of determining the Employee cost with reasonable accuracy.
CAS8	Cost of Utilities	To bring uniformity and consistency in the principles and methods of determining the Cost of Utilities with reasonable accuracy.
CAS9	Packing Material Cost	To bring uniformity and consistency in the principles and methods of determining the Packing Material Cost with reasonable accuracy.
CAS10	Direct Expenses	To bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy.
CAS11	Administrative Overheads	To bring uniformity and consistency in the principles and methods of determining the Administrative Overheads with reasonable accuracy.
CAS12	Repairs And Maintenance Cost	To bring uniformity and consistency in the principles and methods of determining the Repairs and Maintenance Cost with reasonable accuracy.
CAS13	Cost of Service Cost Centre	To bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy.
CAS14	Pollution Control Cost*	To bring uniformity and consistency in the principles and methods of determining the Pollution Control Costs with reasonable accuracy.

**This Standard shall be effective from the period commencing on or after 1st April, 2012.*

COMMENTS AND CONCLUSION

The rivalry between the two accountancy streams - cost and chartered – has escalated into a battle over what one group perceives as the machinations of the other to cut it down to size. At the heart of the dispute is the new Companies Act, the provisions of which have curtailed the scope of the cost auditors. Ranged on opposite sides of the dispute are two groups that share an acronym and a profession - the Institute of Chartered Accountants of India and the Institute of Cost Accountants of India.

In Companies Act, 2013, the nomenclature of National Advisory Committee on Accounting Standards (NACAS) has been changed as National Financial Reporting Authority (NFRA) and unlike NACAS it will not merely be an advisory body but a regulatory authority for auditing, accounting and financial reporting. The role of the Authority has been extended to advice on matters related to Auditing Standards in addition to Accounting Standards and also to act as a regulatory body for accountancy profession.

Through Section 132 of the Companies Act, 2013, the Central Government has introduced a new regulatory authority named as National Authority for Financial Reporting known as National Financial Reporting Authority (NFRA) with wide powers to recommend, enforce and monitor the compliance of accounting and auditing standards. Therefore, it may be concluded that there should not be any rivalry or contradictory attitude between chartered accountants and cost accountants; rather the cost audit under cost audit profession be given due importance in its own fields for controlling of proper functioning and operation of companies, particularly in the line of manufacturing of goods and providing services.

REFERENCE

- 1) *Tax's Mann's, Companies Act 2013.*
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