

# **EXECUTIVE PROGRAMME**

## **UPDATES**

### **FOR**

# **COST AND MANAGEMENT ACCOUNTING**

**(Relevant for students appearing in June, 2017 Examination)**

## **MODULE 1 - PAPER 2**

*Disclaimer-*

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## Lesson 1: Introduction to Cost and Management Accounting

### COST ACCOUNTING STANDARDS

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 Institute/Board has so far issued 24 Cost Accounting Standards, Generally Accepted Cost Accounting Principles, 9 Guidance Notes on Cost Accounting Standards and two Guidance Notes on “Treatment of Costs Relating to Corporate Social Responsibility (CSR) Activities” and “Maintenance of Cost Accounting Records for Construction Industry Including Real Estate and Property Development Activity”.

### COST ACCOUNTING STANDARDS

CAS No	Title	Objective
CAS-1 (Revised 2015)	Classification of Cost	For preparation of Cost Statements
CAS2 (Revised 2015)	Capacity Determination	To bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.
CAS3 (Revised 2015)	Production and Operation Overheads	To bring uniformity and consistency in the principles and methods of determining the Production or Operation 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.
CAS15	Selling and Distribution Overheads	To bring uniformity and consistency in the principles and methods of determining the Selling and Distribution Overheads with reasonable accuracy.
CAS16	Depreciation and Amortisation	To bring uniformity and consistency in the principles and methods of determining the Depreciation and Amortisation with reasonable accuracy.
CAS17	Interest and Financing Charges.	To bring uniformity and consistency in the principles, methods of determining and assigning the Interest and Financing Charges with reasonable accuracy.
CAS18	Research and Development Costs	To bring uniformity and consistency in the principles and methods of determining the Research, and Development Costs with reasonable accuracy and presentation of the same.
CAS19	Joint Costs	To bring uniformity and consistency in the principles and methods of determining the Joint Costs.
CAS20	Royalty and Technical Know-How Fee	To bring uniformity and consistency in the principles and methods of determining the amount of Royalty and Technical Know-how Fee with reasonable accuracy.
CAS21	Quality Control	To bring uniformity, consistency in the principles, methods of determining and assigning Quality Control cost with reasonable accuracy.

CAS22	Manufacturing Cost	To bring uniformity and consistency in the principles and methods of determining the Manufacturing Cost of excisable goods
CAS23	Overburden Removal Cost	To bring uniformity, consistency in the principles, methods of determining and assigning Overburden Removal Cost with reasonable accuracy.
CAS24	Treatment of Revenue in Cost Statements	To bring uniformity and consistency in the principles and methods for treatment of revenue in cost statements with reasonable accuracy.

## Lesson 11: Cost Accounting Records and Cost Audit

### APPLICABILITY FOR COST AUDIT

Every such class of company and with such threshold limit as may be prescribed in the Companies (Cost Records and Audit) Rules, 2014, and as amended from time to time shall be required to get such cost records audited by a cost auditor.

#### Cost Audit

Every company covered under the Companies (Cost Records and Audit) Rules, 2014 and as amended from time to time with such threshold limits as specified in the Rules shall within one hundred and eighty days of the commencement of every financial year appoint a cost auditor. Provided, before such appointment is made, the written consent of the cost auditor to such appointment, and a certificate from him shall be obtained.

The cost auditor appointed under sub-rule (1) shall submit a certificate that—

- (a) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Cost and Works Accountants Act, 1959(23 of 1959) and the rules or regulations made thereunder;
- (b) the individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Act, so far as may be applicable;
- (c) the proposed appointment is within the limits laid down by or under the authority of the Act; and
- (d) the list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form **CRA-2**, alongwith the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

Further every cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed. Provided that the cost auditor appointed under these rules may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing. Further the Form **CRA-2** to be filed with the Central Government for intimating appointment of another cost auditor shall enclose the relevant Board Resolution to the effect. It may be noted that nothing contained in this

sub-rule (3) of Rule 6 shall prejudice the right of the cost auditor to resign from such office of the company.

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form **CRA-2** within thirty days of such appointment of cost auditor.

The cost statements, including other statements to be annexed to the cost audit report, shall be approved by the Board of Directors before they are signed on behalf of the Board by any of the director authorised by the Board, for submission to the cost auditor to report thereon. The cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in **form CRA-3**.

Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.

Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report alongwith full information and explanation on every reservation or qualification contained therein, in Form **CRA-4** in Extensible Business Reporting Language format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 alongwith fees specified in the Companies (Registration ,Offices and Fees) Rules, 2014.

The provisions of section 143(12) of the Companies Act, 2013 and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Companies Act, 2013 and the Companies (Cost Records and Audit) Rules, 2014.

### **Exemptions**

The requirement of Cost Audit is not applicable for the following categories of companies even if they are covered under applicable class of companies:

- whose revenue from exports, in foreign exchange, exceeds 75 per cent of its total revenue or
- which is operating from a special economic zone
- which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term “Captive Generating Plant” shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005

## APPOINTMENT AND REMUNERATION OF COST AUDITOR

The companies covered under the Cost audit category shall within 180 days of the commencement of every financial year, appoint a cost auditor at remuneration to be determined in accordance with provisions of section 148(3) of the Companies Act, 2013 and rules made thereunder.

## COST AUDIT REPORT

Cost Audit Report means the duly signed cost auditor's report on the cost records examined and cost statements which are prepared as per these rules, including attachment, annexure, qualifications or observations attached with or included in such report.

Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in Form **CRA-3**.

Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein

Every company covered under the companies (cost record and audit) Rules, 2014, shall, within a period of 30 days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report alongwith full information and explanation on every reservation or qualification contained therein, in Form **CRA-4** in Extensible Business Reporting Language format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 alongwith fees specified in the Companies (Registration Offices and Fees) Rules, 2014.

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