

K.T.S.P. Mandal's
Hutatma Rajguru Mahavidyalaya
Rajgurunagar – 410505

Third Year B. Com

(2013 pattern)

IInd – Term

Subject – Cost & Works Accounting - III

Prof. G.M. Dhumal
(Head, Department of Commerce)
ganeshakole@gmail.com

Topic 3 & 4 – COST ACCOUNTING RECORDS
RULES AND COST AUDIT

❖ COST AUDIT -

Cost audit is an independent examination of cost records and other related information of an entity including a non-profit entity, when such an examination is conducted with a view to expressing an opinion thereon.

Cost audit comprises of the followings:

- (a) Verification of the cost accounting records for the accuracy of the cost accounts, cost reports, cost statements and cost data and
- (b) Examination of these records to ensure that they adhere to the cost accounting principles, plans, procedures and objectives.

It, therefore, means that the cost auditors' approach should be to ensure that the cost accounting plan is in consonance with the objectives set by the organisation and the system of accounting is geared towards the attainment of these objectives. The cost auditor should also establish the correctness or otherwise of the figures by the processes of vouching verification, reconciliation etc.

❖ PROVISIONS OF COMPANIES ACT, 2013 PERTAINING TO COST ACCOUNTING RECORDS –

Section 2(13) and section 128 of the Companies Act, 2013 deals with the books of accounts to be kept by a company. According to section 2(13) on the Companies Act, 2013 “books of account” includes records maintained in respect of-

- (i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- (ii) all sales and purchases of goods and services by the company;
- (iii) the assets and liabilities of the company; and
- (iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

Section 128 of the Companies Act, 2013 provides that every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of

the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on accrual basis and according to the double entry system of accounting.

Further all or any of the books of account aforesaid and other relevant papers may be kept at such other place in India as the Board of Directors may decide and where such a decision is taken, the company shall, within seven days thereof, file with the Registrar a notice in writing giving the full address of that other place.

Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

In exercise of powers conferred by section 469(1) and (2) read with section 2(13)(iv), section 128 and section 148 of the Companies Act, 2013, the Central Government prescribes the Companies (Cost Records and Audit) Rules, 2014 for the maintenance of cost records relating to the utilization of materials, labour and other items of cost, in the manner as prescribed by specified class of companies, including foreign companies defined in section 2(42) of the Companies Act, 2013, engaged in the production of such goods or providing such services as may be prescribed.

- **Review of Cost Accounting Records by Cost Auditor –**

The cost auditor during the course of audit will thoroughly review the cost accounting records. Such review and verification may include:

1. Methods of costing in use – batch, job, process etc.
2. System of fixation of cost centres.
3. Procedures for accounting of raw materials, packing materials, and spares, etc.
4. Methods of accounting of wastes, rejections and defectives.
5. System of recording of wages, salaries and overtime and their allocation.
6. Incentive schemes in vogue.
7. Basis of allocation/apportionment of utilities.
8. Method of accounting for depreciation and charging depreciation to cost centres.
9. Method of apportionment/allocation of service department expenses.
10. Basis of reapportionment of service department expenses to production departments.
11. Basis of absorption of overheads to products.

12. Basis of absorption of interest, bonus, gratuity and selling and distribution cost to products.
13. Treatment of research and development expenses.
14. Budgetary control system.
15. Internal audit system.
16. Method of accounting of production and sales.
17. Method of evaluation of work-in-progress.
18. System of stock-taking.
19. Method of valuation of inventories.

❖ Verification of Records and Reports –

The records contemplated under Section 209(1)(d) of the Companies Act, 1956 would include all cost accounting records maintained by the company and made available for audit. The following records are considered as part of the cost accounting records-

(1) Production

- (a) Consumption registers of raw material, packing materials, etc.
- (b) Production reports.
- (c) Scrap, wastage, spoilage and defective reports.
- (d) Machine utilization report and idle time report.
- (e) Details of production hours, labour and machine hours.

(2) Raw materials stores etc.

- (a) Goods received register.
- (b) Bin cards and stores ledger.
- (c) Material consumption and stock reports.

(3) Utilities (Steam, power & water) :

- (a) Records of inputs and outputs.
- (b) Records of cost centre-wise allocation of products.
- (c) Records for own generated power and purchased power.

(4) Wages and Salaries:

- (a) Attendance registers.
- (b) Payroll.

- (c) Leave wages and gratuity payments.
- (d) Overtime and idle time records.
- (5) Overheads:
 - (a) Overheads analysis/distribution registers.
 - (b) Overhead absorption details.
- (6) Repairs and maintenance:
 - (a) Work order register
- (7) Work-in-progress and finished goods:
 - (a) Cost centre-wise/product-wise stock register.
 - (b) Product-wise finished goods register.
- (8) Cost accounts, records and statements:
 - (a) Cost centre-wise assets register.
 - (b) Product ledger.
 - (c) Annexures and proforma as per Cost Accounting Records Rules.
 - (d) Reconciliation of profit/loss as per costing and financial records.
- (9) Sales:
 - (a) Sales register including export sales register.
 - (b) Sales analysis by products (quality, size, variety-wise).

❖ APPOINTMENT AND REMUNERATION OF COST AUDITOR –

As per the Companies (Cost Records and Audit) Rules, 2014, cost audit will be performed by a Cost auditor who shall be a Cost Accountant in practice. “Cost Accountant in Practice” means a cost accountant as defined in section 2(1)(b) of the Cost and Works Accountants Act, 1959, who holds a valid certificate of practice under section 6(1) of that Act and who is deemed to be in practice under section 2(2) thereof, and includes a firm or limited liability partnership of cost accountants.

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.

Provided that before such appointment is made, written consent of the cost auditor to such appointment, and a certificate that the appointment, if made, shall be in accordance with the provisions of section 139, section 141 and section 148 of the Companies Act, 2013 and the rules made thereunder, as applicable shall be obtained from the cost auditor.

For the purpose of sub-section (3) of section 148 of the Companies Act, 2013—

(a) in the case of companies which are required to constitute an audit committee*—

- (i) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;
- (ii) the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;

(b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

- **Disqualification for appointment as a cost auditor -**

Eligibility Criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following **persons are not eligible for appointment as a cost auditor**:

- (a) A body corporate. However, a Limited Liability partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)].
- (b) An officer or employee of the company
- (c) A person who is a partner, or who is in the employment, of an officer or employee of the company
- (d) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary of such holding company

- (e) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding ` 1 lakh.
- (f) A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding ` 5 lakhs.
- (g) A person who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for an amount exceeding `1 lakh.
- (h) A person or a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company.
- (i) A person who's relative is a director or is in the employment of the company as director or key managerial personnel of the company.
- (j) A person who is in the full-time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies.
- (k) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction
- (l) Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in consulting and providing specialised services to the company and its subsidiary companies:
 - (a) accounting and book keeping services
 - (b) internal audit
 - (c) design and implementation of any financial information system
 - (d) actuarial services
 - (e) investment advisory services
 - (f) investment banking services
 - (g) rendering of outsourced financial services
 - (h) management services

❖ **RIGHTS AND RESPONSIBILITIES OF COST AUDITOR –**

Section 148 of the Companies Act, 2013 gives the cost auditor same powers as the financial auditor has under section 143 of the Companies Act, 2013, which requires that the company and every officer thereof, shall make available to the cost auditor, such information and explanation as he may consider necessary for the performance of his duties as cost auditor and submit his report within the prescribed time limit.

Rights of Cost Auditor

The powers of the cost auditor under sub-Section (1) of Section 143 are as under:

- Right to access at all times the books of account and vouchers of the company, whether kept at the head office of the company or elsewhere.
- Entitled to require from the officers of the company such information and explanations as he may think necessary for the performance of his duties as an auditor.

❖ PUNISHMENT FOR CONTRAVENTION –

(1) For Cost Auditor –

If default is made by the cost auditor in complying with the provisions of section 139, section 143, section 144 or section 145 of the Companies Act, 2013 then he shall be punishable in the manner as provided in sub-section (2) to (4) of section 147 of the Companies Act, 2013. According to section 147 (2) of the Companies Act, 2013, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees:

Provided that if an auditor has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

According to section 147 sub-section (3) of the Companies Act, 2013, where an auditor has been convicted under section 147 (2) above, he shall be liable to—

- (i) refund the remuneration received by him to the company; and
- (ii) pay for damages to the company, statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.

(2) For Company –

If a company contravenes any provisions of section 139 to 146 of the Companies Act, 2013, the company and every officer thereof who is in default shall be punishable in the manner as provided in sub-section (1) of section 147 of the Companies Act, 2013, wherein the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both.

• **Duties of the Cost Auditor –**

1. To ensure that the proper books of accounts as required by Cost Accounting Records Rules have been kept by the company so far as it appears from the examination of those books and proper returns for the purpose of his audit have been received from branches not visited by him;
2. To ensure that the Cost Audit Report and the detailed cost statements are in the form prescribed by the Cost Audit Report Rules by following sound professional practices i.e. the report should be based on verified data and observations may be framed after the company has been afforded an opportunity to comment on them;
3. The underline assumptions and basis for allocation and absorption of indirect expenses are reasonable and are as per the established accounting principles;
4. If the auditor is not satisfied in any of the aforesaid matters, he may give a qualified report along with the reasons for the same;
5. Sending the Report to the Cost Audit Branch within 180 days from the end of the financial year with one copy to the company;

❖ **PROVISIONS OF COMPANIES ACT, 2013 PERTAINING TO COST AUDIT –**

Section 148 of the Companies Act, 2013 deals with the audit of Cost Accounting records. The section provides as follows:

- (1) Notwithstanding anything contained in Chapter X of Companies Act 2013, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as

may be prescribed shall also be included in the books of account kept by that class of companies:

Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.

- (2) If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under sub-section (1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.
- (3) The audit under sub-section (2) shall be conducted by a Cost Accountant in practice who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed:

Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records:

Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards.

Explanation — for the purposes of this sub-section, the expression “cost auditing standards” mean such standards as are issued by the Institute of Cost and Works Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.

- (4) An audit conducted under this section shall be in addition to the audit conducted under section 143.
- (5) The qualifications, disqualifications, rights, duties and obligations applicable to auditors under this Chapter shall, so far as may be applicable, apply to a cost auditor appointed under this section and it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under this section for auditing the cost records of the company:

Provided that the report on the audit of cost records shall be submitted by the cost accountant in practice to the Board of Directors of the company.

- (6) A company shall within thirty days from the date of receipt of a copy of the cost audit report prepared in pursuance of a direction under sub-section (2) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.
- (7) If, after considering the cost audit report referred to under this section and the information and explanation furnished by the company under sub-section (6), the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government.
- (8) If any default is made in complying with the provisions of this section —
- (a) the company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147;
 - (b) the cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147.

❖ OBJECTIVE / PURPOSE OF COST AUDIT –

The primary purpose of Cost audit is to express an opinion on the cost accounts of the company whether these have been properly maintained and compiled according to the cost accounting system followed by the enterprise or not. However, the purposes of cost audit may be segregated into general and social objectives. The general objectives can be described to include the following:

- (1) Verification of cost accounts with a view to ascertaining that these have been properly maintained and compiled according to the cost accounting system followed by the enterprise.
- (2) Ensuring that the prescribed procedures of cost accounting records rules are duly adhered to.
- (3) Detection of errors and fraud.
- (4) Verification of the cost of each “cost unit” and “cost centre” to ensure that these have been properly ascertained.
- (5) Determination of inventory valuation.

- (6) Facilitating the fixation of prices of goods and services.
- (7) Periodical reconciliation between cost accounts and financial accounts.
- (8) Ensuring optimum utilization of human, physical and financial resources of the enterprise.
- (9) Detection and correction of abnormal loss.
- (10) Inculcation of cost consciousness.
- (11) Advising management, on the basis of inter-firm comparison of cost records, as regards the areas where performance calls for improvement.
- (12) Promoting corporate governance through various operational disclosures.

Social purposes of cost audit –

- 1. Facilitate in fixation of reasonable prices of goods and services produced by the enterprise.
- 2. Improvement in productivity of human, physical and financial resources of the enterprise.
- 3. Channelise enterprise resources to most optimum, productive and profitable areas.
- 4. Availability of audited cost data as regards contracts containing escalation clauses.
- 5. Facilitate in settlement of bills in the case of cost-plus contracts entered into by the Government.
- 6. Pinpointing areas of inefficiency and mismanagement, if any for the benefit of shareholders, consumers, etc., such that necessary corrective action could be taken in time.

❖ 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 **180** 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 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 **30** days of the Board meeting in which such appointment is made or within a period of **180** days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2, along with 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 **180** 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.
- 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 **30** days of such appointment of cost auditor.
- 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 these rules 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 along with full information and explanation on every reservation or qualification contained therein, in Form CRA-4.

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
- 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

- **Types of Cost Audit -**

1. Cost audit on behalf of Management
2. Cost audit on behalf of Government
3. Cost audit on behalf of Tribunals
4. Cost audit on behalf of Trade Associations
5. Cost audit under the statute of the company

❖ **ADVANTAGES OF COST AUDIT –**

Cost audit provides numerous benefits to the management, society, shareholders and the government. The advantages are as under:

A) Advantages to Management -

- (i) Management gets reliable data for its day-to-day operations like price fixing, control, decision-making, etc.
- (ii) A close and continuous check on all wastages will be kept through a proper system of reporting to management.
- (iii) Inefficiencies in the working of the company will be brought to light to facilitate corrective action.
- (iv) Management by exception becomes possible through allocation of responsibilities to individual managers.
- (v) The system of budgetary control and standard costing will be greatly facilitated.
- (vi) A reliable check on the valuation of closing stock and work-in-progress can be established.
- (vii) It helps in the detection of errors and fraud.

B) Advantages to Society -

- (i) Cost audit is often introduced for the purpose of fixation of prices. The prices so fixed are based on the Audit Cost data and so the consumers are saved from exploitation.

- (ii) Since price increase by some industries is not allowed without proper justification like increase in cost of production, inflation through price hikes can be controlled and consumers can maintain their standard of living.

C) Advantages to Shareholder –

Cost audit ensures that proper records are kept as to purchases and utilisation of materials and expenses incurred on wages, etc. It also makes sure that the valuation of closing stocks and work-in-progress is on a fair basis. Thus, the shareholders are assured of a fair return on their investment.

D) Advantages to Government –

- (i) Where the Government enters into a cost-plus contract, cost audit helps government to fix the price of the contract at a reasonable level.
- (ii) Cost audit helps in the fixation of ceiling prices of essential commodities and thus undue profiteering is checked.
- (iii) Cost audit enables the government to focus its attention on inefficient units.
- (iv) Cost audit enables the government to decide in favour of giving protection to certain industries.
- (v) Cost audit facilitates settlement of trade disputes brought to the government.
- (vi) Cost audit and consequent management action can create a healthy competition among the various units in an industry. This imposes an automatic check on inflation

❖ COST AUDIT TECHNIQUES –

1. Vouching.
2. Physical Verification.
3. Comparison of data with Peer.
4. Break-even analysis.
5. Budgetary control including flexible budget system.
6. Cost management techniques indicating how an organization's assets should be allocated over competing projects or to decide whether it is worth proceeding with the investment, keeping in view proportionate value of expenditure on such projects.
7. Discounted cash flow and net present value methods.

8. Cost benefit analysis.
9. Standard costing and marginal costing.
10. Activity based costing to test the relevance of cost to activities.
11. Quality analysis of company transactions.

❖ COST AUDIT PROGRAMME –

Cost audit programme is an essential prerequisite for conducting an audit. It is a plan of action drawn in advance before taking up the audit, and to help the auditor to cover the entire area of his function thoroughly. The audit programme should include all the usual broad steps that a financial auditor includes in his audit programme. However, the significant things that should not be missed are: proper vouching of expenses, capital and revenue character determination, allocation of expenses, apportionment of overheads, arithmetical accuracy, the statutory requirements, examination of contracts and agreements, review of the Board's and shareholders' minute books to trace important decisions having bearing on costs, verification of title deeds and documents relating to properties and assets, etc. Cost audit, in order to be effective, should be completed at one time as far as practicable. The exact content of cost audit largely depends on the size of the organisation, range of products, production process, the existence of a well organised costing department and of a well-designed costing system, and the existence of a capable internal auditing system. Other relevant considerations may be:

(A) Review of Cost Accounting Records-

This will include:

1. Method of costing in use - batch, process or unit.
2. Method of accounting for raw materials; stores and spares, wastages, spoilage, defectives, etc.
3. System of recording wages, salaries, overtime and spares, wastages, etc.
4. Basis of allocation of overheads to cost centres and apportionment of service department's expenses.
5. Treatment of interest, recording of royalties, research and development expenses, etc.
6. Method of accounting of depreciation.
7. Method of stock-taking and its valuation including inventory policies.

8. System of budgetary control.
9. System of internal auditing.

(B) Verification of cost statements and other data

This will include the verification of:

- (i) Licensed, installed and utilised capacities.
- (ii) Financial ratios.
- (iii) Production data.
- (iv) Cost of raw material consumed, wages and salaries, stores, power and fuel, overheads, provision for depreciation etc.
- (v) Sales realisation.
- (vi) Abnormal, non-recurring and special costs.
- (vii) Reconciliation with financial books.

❖ **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 along with 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 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.

❖ COST ACCOUNTING STANDARDS –

Cost Accounting Standards (CAS) had been issued by the Institute of Cost Accountants of India (ICAI). The Preface to Cost Accounting Standards issued by the ICAI has set out the following objectives to be achieved through CAS:

- (a) To provide better guidelines on standard cost accounting practices;
- (b) To assist cost accountants in preparation of uniform cost statements;
- (c) To provide guidelines to bring standard approach towards maintenance of cost accounting records under various statutes;
- (d) To assist the management to follow the standard cost accounting practices in the matter of compliance with statutory obligations; and
- (e) To help Indian industry and the government towards better cost management.

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

CAS 2 (Revised 2015)	Capacity Determination	To bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.
CAS 3 (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.
CAS 4	Cost of Production for Captive Consumption	To determine the assessable value of excisable goods used for captive consumption.
CAS 5	Average (equalized) Cost of Transportation	To determine averaged/equalized transportation cost
CAS 6	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.
CAS 7	Employee Cost	To bring uniformity and consistency in the principles and methods of determining the Employee cost with reasonable accuracy.
CAS 8	Cost of Utilities	To bring uniformity and consistency in the principles and methods of determining the Cost of Utilities with reasonable accuracy.
CAS 9	Packing Material Cost	To bring uniformity and consistency in the principles and methods of determining the Packing Material Cost with reasonable accuracy.
CAS 10	Direct Expenses	To bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy.
CAS 11	Administrative Overheads	To bring uniformity and consistency in the principles and methods of determining the Administrative Overheads with reasonable accuracy.
CAS 12	Repairs and Maintenance Cost	To bring uniformity and consistency in the principles and methods of determining the Repairs and Maintenance Cost with reasonable accuracy.
CAS 13	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.
CAS 14	Pollution Control Cost	To bring uniformity and consistency in the principles and methods of determining the Pollution Control Costs with reasonable accuracy.
CAS 15	Selling and Distribution Overheads	To bring uniformity and consistency in the principles and methods of determining the Selling and Distribution Overheads with reasonable accuracy.
CAS 16	Depreciation and Amortisation	To bring uniformity and consistency in the principles and methods of determining the Depreciation and Amortisation with reasonable accuracy.

CAS 17	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.
CAS 18	Research and Development Cost	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.
CAS 19	Joint Costs	To bring uniformity and consistency in the principles and methods of determining the Joint Costs.
CAS 20	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.
CAS 21	Quality Control	To bring uniformity, consistency in the principles, methods of determining and assigning Quality Control cost with reasonable accuracy.
CAS 22	Manufacturing Cost	To bring uniformity and consistency in the principles and methods of determining the Manufacturing Cost of excisable goods
CAS 23	Overburden Removal Cost	To bring uniformity, consistency in the principles, methods of determining and assigning Overburden Removal Cost with reasonable accuracy.
CAS 24	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.

Reference –

Institute of Chartered Accountants of India

Institute of Companies Secretaries of India

Nirali Publication