

# **MAA OMWATI DEGREE COLLEGE HASSANPUR**

## **Notes of cost accounting standards & reporting**

**Class M.com 4<sup>th</sup> sem.**

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### **Syllabus**

#### **Unit-1**

Institute of Cost Accountants of India. Introduction, objectives Cost accounting standard board Introduction, objectives and functions. Generally accepted cost accounting principles: introduction, conceptual framework, objectives, scope, nature of content and format, Cost Accounting Standards(CAS). need and statutory recognition of CAS Overall recommendations of B. B. Goyal expert committee

#### **Unit-11**

Outlines of CAS: Classification of cost (CAS-1), Overheads (CAS-3), Material cost (CAS-6), Employee cost (CAS-7), Direct expenses (CAS 10), Administrative overheads (CAS-11), Repairs and maintenance cost (CAS-12), cost of service cost center (CAS-13). Selling and distribution overheads (CAS 15) Depreciation and amortization (CAS16), Research and development costs (CAS-18), joint costs (CAS-19)

Introduction, objectives, scope, definition and explanation of terms used, principles of measurement, assignment of cost, presentation and disclosure of CAS capacity determination (CAS 2), cost of production for captive consumption (CAS-4), Determination of average (equalized) cost of transportation (CAS-5), cost of utilities (CAS-8)

#### **Unit-III**

Introduction, objectives, scope, definition and explanation of terms used, principles of measurement,

assignment of cost, presentation and disclosure of CAS packing material cost (CAS-9), pollution control

cost(CAS-14), Interest and financing charges (CAS 17), Royalty and technical know-how fee (CAS 20), Quality control (CAS-21), Manufacturing cost (CAS-22)  
Latest amendments and development in CAS

Cost auditors appointment, eligibility, remuneration, rights and responsibilities, functions, appointing authorities

#### Unit IV

Cost Audit, nature, scope, advantages of cost audit, genesis of cost audit in India, types of cost audit, relevance of cost audit, usefulness of cost audit, difference between cost audit and cost investigation Cost audit standards CAS 101 planning on audit of cost statement, CAS -102 cost audit documentation, CAS 103 overall objectives of independent cost auditor, CAS-104 knowledge of business, its process and the business environment.

Cost accounting records, general features of cost accounting records, companies (cost records and audit) rules 2014

## Short question

1. What are the main objectives of the Institute of Cost Accountants of India (ICAI)?
2. Define the role and functions of the Cost Accounting Standards Board (CASB).
3. What is the importance of Cost Accounting Standards in cost reporting?
4. What do you understand by Generally Accepted Cost Accounting Principles (GACAP)?
5. Mention two key elements of the conceptual framework under cost accounting.
6. What is the scope of GACAP in cost accounting practices?
7. Why is statutory recognition of Cost Accounting Standards important?
8. What is the nature and content format of cost accounting principles?
9. What is the purpose of establishing a conceptual framework in cost accounting?
10. What are the key recommendations of the B. B. Goyal Expert Committee?
11. What is the objective of CAS-1 related to the classification of cost?
12. Define overheads as per CAS-3 and give one example.
13. What costs are included under CAS-6 (Material Cost)?
14. State the objective of CAS-7 (Employee Cost).
15. What is "cost of captive consumption" as per CAS-4?
16. What does CAS-5 say about average (equalized) cost of transportation?
17. What is included in CAS-13 (Cost of service cost center)?
18. What is the purpose of CAS-11 (Administrative Overheads)?

19. Define the principles of measurement in CAS-10 (Direct Expenses).
20. What is covered under CAS-8 (Cost of Utilities)?
21. What is the focus of CAS-9 (Packing Material Cost)?
22. What is the definition and scope of CAS-14 (Pollution Control Cost)?
23. What are the components included in CAS-17 (Interest and Financing Charges)?
24. Who appoints the cost auditor, and what is their eligibility as per regulations?

## Answer of Short questions

1. **Objectives of ICAI:** To promote, regulate, and develop the profession of cost and management accounting in India.
2. **Functions of CASB:** Formulates cost accounting standards and ensures uniformity in cost practices.
3. **Importance of CAS:** Ensures consistency, transparency, and comparability in cost reporting.
4. **GACAP:** A set of fundamental principles guiding cost accounting practices in a consistent manner.
5. **Key Elements:** Objectives of cost reporting and principles of measurement and disclosure.
6. **Scope of GACAP:** Applies to preparation and presentation of cost statements across industries.
7. **Statutory Recognition:** Helps enforce standards legally, ensuring compliance in regulated sectors.
8. **Nature & Format:** Structured principles including scope, measurement, assignment, and disclosure.
9. **Purpose of Framework:** To provide a foundation for developing consistent cost accounting practices.
10. **B. B. Goyal Committee Recommendations:** Emphasized statutory backing for CAS and mandatory application for regulated sectors.
11. **Objective of CAS-1:** To classify costs based on nature, function, and behavior for accurate cost measurement.
12. **Overheads (CAS-3):** Indirect costs not directly linked to a product (e.g., factory rent).
13. **CAS-6 (Material Cost):** Includes purchase cost, freight, taxes, duties, and handling charges.
14. **Objective of CAS-7:** To determine employee cost incurred in production and service delivery.
15. **Captive Consumption (CAS-4):** Cost of goods produced and consumed internally without sale.
16. **CAS-5 (Transportation Cost):** Determines average cost per unit based on total cost and quantity transported.
17. **CAS-13:** Covers cost incurred in providing internal services (e.g., power generation, canteen).
18. **CAS-11:** Focuses on costs not related to production or selling but for administrative functions.
19. **CAS-10 (Direct Expenses):** Costs directly attributed to a product or service (e.g., royalties, design fees).
20. **CAS-8 (Utilities):** Covers cost of utilities like electricity, water, steam used in production.
21. **CAS-9:** Deals with costs of packaging materials used for primary or secondary packing.

22. **CAS-14:** Covers costs related to controlling environmental pollution (e.g., treatment plant expenses).
23. **CAS-17 Components:** Includes interest on loans, finance charges on leased assets, and related costs.
24. **Cost Auditor Appointment:** Appointed by the company board with approval of the Central Government; must be a Cost Accountant in practice.

## **Long question**

### **Unit I: Fundamentals of Cost Accounting Standards and the ICAI Framework**

1. **Explain the role and objectives of the Institute of Cost Accountants of India (ICAI). How does the Cost Accounting Standards Board (CASB) function, and what are its key objectives?**
2. **Discuss the need for Cost Accounting Standards (CAS) in India. What is the statutory recognition of CAS, and how do they support cost transparency and uniformity?**
3. **Define Generally Accepted Cost Accounting Principles (GACAP). Explain their scope, nature, and objectives with suitable illustrations.**
4. **Critically analyze the recommendations of the B. B. Goyal expert committee. How have these recommendations influenced the development of cost accounting standards in India?**

### **Unit II: Outlines and Detailed Study of CAS (CAS 1 to CAS 19)**

1. **Describe the classification of costs as per CAS-1. How are different elements of cost identified and categorized under this standard?**
2. **Discuss in detail CAS-3 (Overheads) and CAS-6 (Material Cost). Highlight their objectives, principles of cost measurement, and methods of presentation and disclosure.**
3. **Elaborate the provisions of CAS-7 (Employee Cost) and CAS-10 (Direct Expenses). How are these costs assigned and disclosed in cost records?**
4. **Examine the importance and methodology of cost determination under CAS-2 (Capacity Determination) and CAS-4 (Cost of Production for Captive Consumption).**

### **Unit III: CAS 9 to CAS 22 and Cost Auditor's Role**

1. **Explain CAS-9 (Packing Material Cost) and CAS-14 (Pollution Control Cost). Discuss their application and relevance in cost statements with examples.**
2. **Write a detailed note on CAS-17 (Interest and Financing Charges) and CAS-20 (Royalty and Technical Know-How Fee). How are these costs measured and assigned?**
3. **Highlight the objectives, scope, and disclosure methods under CAS-21 (Quality Control) and CAS-22 (Manufacturing Cost). Discuss the latest amendments related to these standards.**
4. **Who is a Cost Auditor? Discuss the procedure for appointment, eligibility, rights, responsibilities, and remuneration of a cost auditor.**

### **Unit IV: Cost Audit and Compliance**

1. **Define Cost Audit. Discuss its nature, scope, relevance, and advantages in the modern corporate environment. How is it different from cost investigation?**

2. Describe the various types of cost audit. What is the historical development of cost audit in India, and how has it evolved over time?
3. Explain in detail the Cost Audit Standards (CAS 101 to CAS 104). What are their objectives, and how do they support the cost audit process?
4. What are the general features of Cost Accounting Records as per Companies (Cost Records and Audit) Rules, 2014? How do these rules affect corporate compliance?

## Answer of Long question

### Unit :- 1

**ANS 1. Explain the role and objectives of the Institute of Cost Accountants of India (ICAI). How does the Cost Accounting Standards Board (CASB) function, and what are its key objectives?**

The **Institute of Cost Accountants of India (ICAI)**, formerly known as the **Institute of Cost and Works Accountants of India (ICWAI)**, is the **premier statutory professional body** in India responsible for regulating the profession of **cost and management accountancy**. Established under the **Cost and Works Accountants Act, 1959**, ICAI functions under the administrative control of the **Ministry of Corporate Affairs**, Government of India.

#### *Objectives of ICAI:*

1. **Regulation and development** of the cost and management accountancy profession in India.
2. **Promoting best practices** in cost and financial management.
3. **Prescribing standards** related to cost accounting and cost audit.
4. Providing training and education to aspirants and existing members.
5. **Advancing the profession** through research, publications, and conferences.

#### *Role of ICAI:*

- It plays a **critical role in improving cost efficiency**, pricing strategies, and resource allocation.
- Provides **technical guidance** and support to industry and government in areas of cost management.
- Works closely with regulatory bodies to ensure **compliance with cost regulations** and financial reforms.
- ICAI is also a **standard-setting body** through the **Cost Accounting Standards Board (CASB)**.

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### **Cost Accounting Standards Board (CASB):**

The CASB is a **non-statutory body** formed by ICAI to develop and issue **Cost Accounting Standards (CAS)**.

#### *Functions of CASB:*

1. **Drafting and issuing cost accounting standards** to bring uniformity and consistency in cost practices across industries.

2. **Reviewing and updating standards** based on changes in law, technology, and business environment.
3. **Facilitating compliance** with cost accounting principles and improving financial reporting.
4. **Engaging with industry experts** to ensure the standards are practical and relevant.

### *Key Objectives of CASB:*

- Establish a **uniform framework** for cost accounting practices in India.
  - **Improve comparability** of cost data across companies and sectors.
  - Ensure **transparency and reliability** in cost statements.
  - Support the **effective implementation of cost audit** under statutory provisions.
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## **ANS 2. Discuss the need for Cost Accounting Standards (CAS) in India. What is the statutory recognition of CAS, and how do they support cost transparency and uniformity?**

### *Need for CAS in India:*

In a diverse and rapidly growing economy like India, companies operate in various sectors with differing cost structures. **Cost Accounting Standards (CAS)** are essential to ensure **standardization, consistency, and reliability** in cost measurement and reporting.

Some key reasons for the need of CAS include:

1. **Uniformity in costing methods** across companies and industries.
  2. **Reliable cost data** for decision-making by management, regulators, and other stakeholders.
  3. **Effective implementation of cost audit** as prescribed under the Companies Act.
  4. Ensuring **transparency in pricing, resource utilization**, and internal control.
  5. Assisting **government and regulators** in setting prices, subsidies, and tariffs for public utilities and services.
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### **Statutory Recognition of CAS:**

- **The Companies (Cost Records and Audit) Rules, 2014**, issued under the **Companies Act, 2013**, recognize **Cost Accounting Standards** issued by the **ICAI (Institute of Cost Accountants of India)**.
  - These standards are **mandatory** for companies that are required to maintain cost records and undergo cost audits.
  - The **Cost Audit Report Rules** also make references to compliance with CAS while preparing and verifying cost audit reports.
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### **Support for Cost Transparency and Uniformity:**

- CAS provides a **framework for accurate and consistent cost measurement**, leading to better **comparability** of financial performance.
- It ensures **disclosure of relevant cost components**, increasing **transparency** in cost reporting.
- CAS helps to **eliminate arbitrary costing practices**, thereby preventing manipulation and improving **stakeholder confidence**.

### **ANS 3. Define Generally Accepted Cost Accounting Principles (GACAP). Explain their scope, nature, and objectives with suitable illustrations.**

#### *Definition:*

**Generally Accepted Cost Accounting Principles (GACAP)** are a **set of standard cost accounting concepts, guidelines, and principles** that serve as a foundation for preparing cost statements and maintaining cost records in a systematic, consistent, and transparent manner.

Issued by the **ICAI's Cost Accounting Standards Board (CASB)**, GACAP serves as a **conceptual framework** for the development and implementation of **Cost Accounting Standards (CAS)** in India.

#### **Scope of GACAP:**

- Applicable to all enterprises required to maintain cost records under the **Companies Act**.
  - Covers **basic principles of cost identification, allocation, and absorption**.
  - Helps in **formulating cost policies**, ensuring alignment with CAS.
  - Forms the basis for **cost audit** and other regulatory reporting.
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#### **Nature of GACAP:**

1. **Conceptual Framework:** GACAP is not a single document but a collection of principles developed to harmonize cost practices.
  2. **Flexible yet authoritative:** While providing guidance, it allows room for professional judgment based on industry specifics.
  3. **Supportive of CAS:** Acts as a **precursor** or background framework for detailed Cost Accounting Standards.
  4. **Dynamic:** Subject to revision with changes in technology, laws, and business environments.
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#### **Objectives of GACAP:**

- Promote **uniformity and consistency** in cost accounting across different sectors.
- Ensure **fair presentation of cost data** and prevent misstatements.
- Serve as a **reference point** for cost auditors, regulators, and companies.
- Support the **development and implementation** of CAS.

### **ANS 4. Critically analyze the recommendations of the B. B. Goyal expert committee. How have these recommendations influenced the development of cost accounting standards in India?**

The **B. B. Goyal Expert Committee** was constituted by the **Ministry of Corporate Affairs (MCA)** to study and suggest improvements in the **cost accounting and cost audit framework** in India.

#### **Key Recommendations of the Committee:**

1. **Need for Standardization:**

- Recommended **mandatory application of Cost Accounting Standards (CAS)** for entities required to maintain cost records.
  - Emphasized the role of **ICAI's Cost Accounting Standards Board (CASB)** in issuing and updating standards.
  - 2. **Statutory Recognition of CAS:**
    - Suggested legal backing for CAS under the Companies Act.
    - Led to the incorporation of **Cost Records and Audit Rules, 2014**, recognizing CAS.
  - 3. **Improvement in Cost Audit Reporting:**
    - Recommended **structured formats and disclosures** in cost audit reports.
    - Encouraged alignment with the **overall corporate governance** framework.
  - 4. **Capacity Building and Training:**
    - Stressed the need for **education and training** for cost accountants in understanding and implementing CAS.
    - Promoted collaboration with industries for practical implementation.
  - 5. **Technology and Modernization:**
    - Advocated the use of **technology and ERP systems** in cost data collection and processing.
    - Supported integration of cost records with financial systems for better control.
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## Impact on Development of CAS:

1. **Legal Recognition:**
  - Based on the recommendations, **CAS got statutory recognition** under the **Companies (Cost Records and Audit) Rules, 2014**.
2. **Standardization of Cost Practices:**
  - Led to the **formulation of over 20 CAS**, covering various cost elements such as materials, labor, overheads, R&D, depreciation, etc.
3. **Enhanced Cost Audit Framework:**
  - Resulted in the issue of **Cost Audit Standards (CAS-101 to CAS-104)** for guiding cost auditors in audit planning, documentation, and reporting.
4. **Greater Transparency:**
  - Brought about **greater accountability and transparency** in costing systems, aiding government in regulatory decisions and price control.

## Unit :- 2

### ANS 1. Describe the classification of costs as per CAS-1. How are different elements of cost identified and categorized under this standard?

**CAS-1 (Classification of Cost)** provides the basic framework for **identifying, grouping, and classifying** the various elements of cost in a uniform and systematic manner. This classification helps organizations in cost control, budgeting, and decision-making processes.

#### *Objectives of CAS-1:*

- To ensure uniformity in **cost recording and reporting**.
  - To facilitate **comparison of costs** across different organizations and time periods.
  - To support effective **cost analysis and audit**.
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## Key Classifications under CAS-1:



### *1. By Nature or Element:*

- **Material Cost:** Cost of raw materials, components, semi-finished goods.
- **Labour Cost:** Wages and salaries paid to employees directly or indirectly involved in production.
- **Expenses:** Includes other indirect costs such as power, rent, insurance, etc.

### *2. By Function:*

- **Production/Manufacturing Cost:** Costs associated with manufacturing activities.
- **Administrative Cost:** Costs related to general administration like office expenses.
- **Selling and Distribution Cost:** Costs incurred for selling, advertising, and distribution of products.
- **Research and Development Cost:** Costs for innovation, testing, or developing new products.

### *3. By Behavior:*

- **Fixed Cost:** Remains unchanged with a change in output (e.g., rent, salary).
- **Variable Cost:** Changes in direct proportion to production levels (e.g., raw materials).
- **Semi-variable Cost:** Partly fixed and partly variable (e.g., electricity charges with minimum fixed component).

### *4. By Controllability:*

- **Controllable Cost:** Can be influenced by a specific level of management (e.g., overtime pay).
- **Uncontrollable Cost:** Cannot be influenced by management (e.g., statutory levies).

### *5. By Normality:*

- **Normal Cost:** Costs expected to be incurred under normal operating conditions.
- **Abnormal Cost:** Costs not expected under normal conditions (e.g., losses due to fire).

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## **Methods of Identification:**

- Each cost should be **traced directly or indirectly** to cost objects such as products, processes, departments, or services.
- Cost should be classified **consistently across periods**, and changes must be disclosed with reasons.

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**ANS 2. Discuss in detail CAS-3 (Overheads) and CAS-6 (Material Cost). Highlight their objectives, principles of cost measurement, and methods of presentation and disclosure.**

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## **CAS-3: Overheads**

### *Objective:*

To establish principles for determining **overhead costs** and their **allocation, absorption, and presentation** in cost statements.

### *Key Definitions:*

- **Overheads:** Costs other than direct material, direct employee cost, and direct expenses. Includes indirect material, indirect labor, and other indirect expenses.

### *Principles of Measurement:*

- **Actual cost incurred** should be the basis.
- Overheads are to be **classified by functions**: production, administration, selling & distribution.
- Should include only **normal costs**, excluding abnormal losses.

### *Assignment of Cost:*

- Allocated or apportioned to cost centers and further **absorbed to products** based on rational methods such as labor hours, machine hours, etc.

### *Presentation and Disclosure:*

- Separate disclosure of overhead by type and function.
  - Method of allocation and absorption must be disclosed clearly.
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## **CAS-6: Material Cost**

### *Objective:*

To set guidelines for the identification, measurement, assignment, and presentation of **material costs** in cost statements.

### *Principles of Measurement:*

- Materials to be valued at **purchase cost + freight + taxes + handling charges**, net of discounts.
- Losses due to normal wastage included; **abnormal wastage excluded**.

### *Assignment of Cost:*

- Direct materials: charged to cost objects directly.
- Indirect materials: part of overheads and allocated accordingly.

### *Presentation and Disclosure:*

- Type of material, method of valuation (FIFO, LIFO, weighted average), normal/abnormal losses to be disclosed.
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**ANS 3. Elaborate the provisions of CAS-7 (Employee Cost) and CAS-10 (Direct Expenses). How are these costs assigned and disclosed in cost records?**

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## **CAS-7: Employee Cost**

### *Objective:*

To establish principles for **measuring, assigning, and disclosing employee costs** in cost statements.

### *Scope:*

Includes all costs incurred for employees – wages, salaries, bonus, allowances, welfare, PF, gratuity, training, etc.

### *Principles of Measurement:*

- Based on **actual payments and provisions** made.
- Includes employer contributions to PF, ESI, gratuity, etc.

### *Assignment of Cost:*

- Direct employee costs: assigned directly to cost objects.
- Indirect employee costs: treated as part of overheads.

### *Presentation and Disclosure:*

- Must specify nature and type of employee costs.
  - Separate disclosure for direct and indirect costs.
  - Basis of apportionment or allocation to be disclosed.
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## **CAS-10: Direct Expenses**

### *Objective:*

To lay down principles for identifying and measuring **direct expenses** other than direct material and labor.

### *Scope:*

Covers expenses directly attributable to cost objects like:

- Royalty based on production
- Hire charges of specific equipment
- Sub-contracting charges

### *Principles of Measurement:*

- Measured at **actual cost incurred**, excluding abnormal losses.

### *Assignment of Cost:*

- Charged **directly** to concerned cost centers or products.

### *Presentation and Disclosure:*

- Nature, amount, and basis of direct expenses must be disclosed separately.

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## ANS 4. Examine the importance and methodology of cost determination under CAS-2 (Capacity Determination) and CAS-4 (Cost of Production for Captive Consumption).

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### CAS-2: Capacity Determination

#### *Objective:*

To provide a standardized method to determine **capacity levels** for cost measurement and reporting purposes.

#### *Types of Capacity:*

1. **Installed Capacity** – Maximum output under ideal conditions.
2. **Practical (Normal) Capacity** – Installed capacity minus normal stoppages and maintenance.
3. **Actual Capacity Utilization** – Output actually achieved.
4. **Idle Capacity** – Difference between installed and utilized capacity.

#### *Importance:*

- Helps determine **overhead absorption rates**.
- Highlights **inefficiencies** and underutilization.
- Assists in **cost audit and variance analysis**.

#### *Disclosure:*

- Basis of capacity determination, reasons for idle capacity, and actual utilization must be reported.

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### CAS-4: Cost of Production for Captive Consumption

#### *Objective:*

To define the method of **costing products used internally** (e.g., raw materials for other divisions, internal consumption, etc.)

#### *Scope:*

Used for:

- Inter-unit transfers
- Products supplied for captive use
- Regulatory filings (especially in excise and GST)

### *Principles of Measurement:*

- Includes all **costs of production**: material, labor, overheads, depreciation, quality control, R&D, administrative overheads (relating to production).

### *Exclusions:*

- Selling and distribution overheads.
- Financing charges and non-operating income.

## Unit :- 3

**ANS 1. Explain CAS-9 (Packing Material Cost) and CAS-14 (Pollution Control Cost). Discuss their application and relevance in cost statements with examples.**

### **CAS-9: Packing Material Cost**

#### *Objective:*

To prescribe the principles and methods for measuring and assigning **packing material costs** to cost objects.

#### *Scope:*

Applicable to the cost of **primary and secondary packing materials**, whether for production or marketing.

#### *Classification:*

1. **Primary Packing** – Essential for containing the product (e.g., bottle for shampoo).
2. **Secondary Packing** – Used for branding or transportation (e.g., cardboard boxes).

### *Principles of Measurement:*

- Includes **purchase cost, duties, freight, handling, and storage charges**.
- Deduct **discounts or rebates**.
- Should include **normal losses** and exclude **abnormal losses**.

### *Assignment of Cost:*

- **Primary packing cost** is assigned **directly to the product**.
- **Secondary packing cost** is often treated as **selling and distribution overhead**.

### *Disclosure Requirements:*

- Type and cost of packing material used.
- Basis of valuation and assignment.
- Treatment of scrap or waste, if any.

### *Example:*

A company manufacturing biscuits uses plastic wrappers (primary) and corrugated boxes (secondary). The cost of plastic is charged to product cost, while the boxes may be allocated to distribution overheads.

## **CAS-14: Pollution Control Cost**

### *Objective:*

To standardize the principles for determining and assigning **costs incurred on pollution control**.

### *Scope:*

Includes costs of **preventing, monitoring, or controlling pollution** caused by manufacturing processes.

### *Components:*

- Operation and maintenance of pollution control equipment.
- Treatment of waste (effluent, air, noise).
- Cost of regulatory compliance, certifications.
- Penalties and fines (if not abnormal in nature).

### *Principles of Measurement:*

- Based on **actual cost incurred**.
- Includes depreciation of pollution control assets, employee cost, and related overheads.
- Costs due to abnormal events (e.g., oil spill) are excluded.

### *Assignment of Cost:*

- Directly assigned to the product/process causing pollution.
- Indirect costs may be apportioned on the basis of activity levels (e.g., machine hours, waste generated).

### *Disclosure Requirements:*

- Method of cost assignment.
- Regulatory requirements and compliance status.
- Capital vs. operational expenses.

### *Example:*

A chemical factory operating an effluent treatment plant (ETP) includes its operating cost in the cost of products using hazardous chemicals.

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**ANS 2. Write a detailed note on CAS-17 (Interest and Financing Charges) and CAS-20 (Royalty and Technical Know-How Fee). How are these costs measured and assigned?**

## **CAS-17: Interest and Financing Charges**

### *Objective:*

To lay down the principles for determining **interest and financing costs** in cost statements.

### *Scope:*

Covers all types of borrowing costs, such as:

- Interest on loans
- Finance lease charges
- Loan processing fees
- Bank charges

### *Principles of Measurement:*

- Include **actual interest paid or accrued**, commitment charges, and guarantee fees.
- Should not include penalties, foreign exchange differences unless they relate to financing.
- Interest relating to capital work-in-progress may be **capitalized** (as per accounting standards).

### *Assignment of Cost:*

- Generally **not assigned** to cost of production.
- May be shown as a **separate cost head** or considered part of administrative overhead (if for working capital loans).

### *Disclosure Requirements:*

- Nature and amount of borrowing cost.
- Basis of allocation (if any).
- Exclusions and reasons.

### *Example:*

A company taking a term loan for machinery installation capitalizes the interest until commissioning and then treats interest as a period cost.

## **CAS-20: Royalty and Technical Know-How Fee**

### *Objective:*

To standardize the measurement of **royalty payments and technical know-how charges** incurred for using intellectual property or services.

### *Scope:*

- Royalties for patents, copyrights, brand names.
- Fees for technical support or know-how.

### *Principles of Measurement:*

- Includes **contracted amounts**, taxes, and associated charges.
- Excludes penalties or fines.

### *Assignment of Cost:*

- If linked to production (e.g., per unit license fee), assigned directly to products.
- Otherwise, treated as **administrative overheads**.

### *Disclosure Requirements:*

- Nature, basis, and amount of fee.
- Relation to output (fixed or variable).
- Whether it is capitalized or charged off.

### *Example:*

A company pays ₹10 per unit royalty on each branded pen produced. This is charged directly to cost per unit.

**ANS 3. Highlight the objectives, scope, and disclosure methods under CAS-21 (Quality Control) and CAS-22 (Manufacturing Cost). Discuss the latest amendments related to these standards.**

## **CAS-21: Quality Control**

### *Objective:*

To determine the cost of activities performed for **maintaining and improving quality** in products and services.

### *Scope:*

Includes costs related to:

- Quality inspection
- Product testing
- Certification and audits
- Rework due to quality failure

### *Principles of Measurement:*

- Includes salaries of QC staff, materials used, equipment depreciation, and audit fees.
- Abnormal cost due to failure or rejection not included.

### *Assignment of Cost:*

- Costs linked to a product: directly assigned.
- General QC costs: apportioned to all products.

### *Disclosure:*

- Basis of cost allocation.
- Nature of activities and their relevance.
- Any rework or rejected cost treated separately.



## CAS-22: Manufacturing Cost

### *Objective:*

To identify and measure all costs incurred in the **manufacturing process**.

### *Scope:*

Includes:

- Material
- Labor
- Direct expenses
- Production overheads
- Cost of utilities

### *Principles of Measurement:*

- Based on **historical cost**.
- Only normal production costs considered.
- Excludes abnormal losses, financing charges, selling & distribution costs.

### *Assignment:*

- Assigned directly to products or processes.
- Overheads allocated based on rational methods (e.g., labor hours).

### *Disclosure:*

- Total manufacturing cost per unit.
- Breakdown of each cost component.
- Any exclusions and rationale.

## **Latest Amendments:**

- Improved **disclosure requirements** to align with changes in **Companies (Cost Records and Audit) Rules**.
- Encouragement of **digital data capture** for real-time cost tracking.
- Integration of **environmental and sustainability reporting** in quality and production costs.

## **ANS 4. Who is a Cost Auditor? Discuss the procedure for appointment, eligibility, rights, responsibilities, and remuneration of a cost auditor.**

### **Who is a Cost Auditor?**

A **Cost Auditor** is a professional appointed to **verify and certify cost records** of a company under the **Companies Act, 2013**. The auditor ensures that cost statements are maintained and presented in compliance with prescribed rules and standards.

### **Eligibility of a Cost Auditor:**

- Must be a **member of the Institute of Cost Accountants of India (ICAI)**.
- Must hold a valid **Certificate of Practice**.
- Should not be disqualified under Section 141 of the Companies Act (e.g., due to employment in the company).

### Procedure for Appointment:

1. **Board Resolution:** The Board of Directors appoints the cost auditor.
2. **Intimation to MCA:** Form CRA-2 must be filed with the Ministry of Corporate Affairs within **30 days of appointment**.
3. **Consent and Eligibility Certificate:** Auditor must provide a written consent and certificate of eligibility.

### Rights and Powers of a Cost Auditor:

- Access to **books of account, records, and vouchers**.
- Right to obtain **information and explanations** from company officials.
- Right to **visit factories or production sites**.

### Responsibilities of a Cost Auditor:

- Verify **cost records and compliance with CAS**.
- Submit **Cost Audit Report** in Form CRA-3 to the Board.
- Ensure **truthfulness and fairness** of cost statements.
- Report any **non-compliance or fraud** noticed.

### Remuneration of Cost Auditor:

- Fixed by the **Board of Directors**, subject to ratification in the AGM (if required).
- Depends on **scope, complexity, and size** of the audit.
- Disclosed in the cost audit report and financial statements.

## Unit :- 4

**ANS 1. Define Cost Audit. Discuss its nature, scope, relevance, and advantages in the modern corporate environment. How is it different from cost investigation?**

### Definition of Cost Audit:

**Cost Audit** is the **verification of cost records** and accounts to ensure that these records provide a **true and fair view of the cost of production or operations**. It ensures compliance with prescribed **cost accounting standards and rules** and is conducted by a qualified **Cost Auditor** as per the Companies Act, 2013.

### Nature of Cost Audit:

- It is a **systematic and independent examination** of cost records.
- Conducted **as per statutory requirements** for specified industries and companies.
- Focuses on **internal cost efficiency, control systems, and cost allocation**.
- It aims to **verify accuracy** of cost data used in managerial and pricing decisions.

## Scope of Cost Audit:

- Verification of **cost accounting records**, including material, labor, overheads, utilities, etc.
- Checking compliance with **Cost Accounting Standards (CAS)**.
- Evaluating the company's **cost control and efficiency systems**.
- Assisting regulatory bodies with accurate **cost data for pricing and subsidies**.

## Relevance in the Modern Corporate Environment:

1. **Enhanced transparency** in operations and production costs.
2. Helps in **identifying cost-saving areas** and improving profitability.
3. Ensures **regulatory compliance** under Companies Act and other laws.
4. Aids in **price fixation, taxation, subsidy claims**, and government tenders.
5. Builds **stakeholder confidence** through credible cost reporting.

## Advantages of Cost Audit:

- **Checks wastage and inefficiency** in production.
- Ensures **accuracy of cost data** used for managerial decisions.
- Useful in **fixing product prices** and making export/import decisions.
- Supports **government policies** in public utilities and essential commodities.
- Helps in **detecting frauds, misstatements, and misallocations**.

## Difference between Cost Audit and Cost Investigation:

Basis	Cost Audit	Cost Investigation
<b>Objective</b>	Verify accuracy of cost records	Examine cost structure for a specific reason
<b>Scope</b>	Systematic and continuous	Specific and situational
<b>Conducted by</b>	Cost Auditor (ICAI member)	May be by auditor or appointed investigator
<b>Legal Framework</b>	Under Companies Act, 2013	As per management or statutory request
<b>Nature</b>	Preventive and regular	Diagnostic or curative

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**ANS 2. Describe the various types of cost audit. What is the historical development of cost audit in India, and how has it evolved over time?**

## Types of Cost Audit:

1. **Statutory Cost Audit:**  
Mandated under the **Companies Act, 2013** and applicable to certain industries such as cement, steel, electricity, pharmaceuticals, etc. Governed by **Companies (Cost Records and Audit) Rules, 2014**.
2. **Internal Cost Audit:**  
Conducted voluntarily by management for internal review and control of cost processes.
3. **Cost Audit on behalf of Customers:**  
Undertaken when buyers (especially government) request verification of seller's cost data to fix prices or validate quotations.

4. **Cost Audit for Government:**  
Done when the government demands accurate cost data for fixing **subsidy, tax, or tariff rates** in regulated sectors.
5. **Cost Audit under a Contract:**  
Required under contractual agreements with business partners, where cost verification is a clause.

## Historical Development of Cost Audit in India:

1. **Pre-Independence Era:**  
There was **no formal system** of cost audit; only financial audits were prevalent.
2. **Post-Independence (1950s–60s):**  
Rise in public sector undertakings and price control mechanisms led to the need for cost audit.
3. **Introduction under the Companies Act, 1956:**
  - First legal recognition to **cost accounting and cost audit**.
  - **Section 233B** introduced, empowering the government to order cost audits.
4. **1980s–90s:**  
Expansion of cost audit to **private sector companies** in industries with high public interest (e.g., fertilizers, telecom).
5. **Companies Act, 2013:**  
Brought greater clarity and scope with updated compliance provisions under **Section 148**.
6. **Companies (Cost Records and Audit) Rules, 2014:**  
Introduced detailed criteria for **maintenance of cost records and audit applicability**.

## Evolution Highlights:

- From a **voluntary internal tool** to a **statutory compliance mechanism**.
- Integrated with **cost accounting standards (CAS)**.
- Shift towards **digitization, XBRL-based cost audit report filings**, and real-time analytics.

## ANS 3. Explain in detail the Cost Audit Standards (CAS 101 to CAS 104). What are their objectives, and how do they support the cost audit process?

The **Cost Audit Standards (CAS 101 to CAS 104)** are issued by the **Institute of Cost Accountants of India (ICAI)** to bring **uniformity, consistency, and clarity** in the cost audit process. They align with international audit frameworks while meeting Indian regulatory needs.

### CAS-101: Planning an Audit of Cost Statements

#### *Objective:*

To establish guidelines for **planning a cost audit**, including audit strategy and program.

#### *Key Aspects:*

- Understanding the **entity's operations and industry**.
- Establishing **audit objectives, materiality, and risk assessment**.
- Planning resources and timelines.
- Ensuring compliance with cost accounting standards.

### CAS-102: Cost Audit Documentation

### *Objective:*

To ensure **adequate documentation** during the audit process to support the findings and conclusions.

### *Key Aspects:*

- Maintenance of **working papers**, observations, and evidence.
- Documentation of **audit procedures**, sampling methods, and queries raised.
- Retention and confidentiality of records.
- Helps ensure **transparency and accountability**.

## **CAS-103: Overall Objectives of the Independent Cost Auditor**

### *Objective:*

To outline the **core responsibilities of a cost auditor**, including ethical obligations and professional skepticism.

### *Key Aspects:*

- Conduct the audit with **integrity and objectivity**.
- Ensure cost statements are **free from material misstatements**.
- Maintain **independence** and apply **professional judgment**.
- Follow applicable **laws, standards, and guidance notes**.

## **CAS-104: Knowledge of Business, its Process, and the Business Environment**

### *Objective:*

To require auditors to obtain **sufficient understanding of the company's business**, industry, and processes.

### *Key Aspects:*

- Study of **business models, cost drivers, and regulatory factors**.
- Understanding the **internal control systems**.
- Identify **risks and irregularities** in cost practices.
- Enables effective **risk-based audit planning**.

## **Support to Cost Audit Process:**

- Ensures **standardization** across auditors and companies.
- Enhances **audit quality, consistency, and compliance**.
- Promotes **confidence in audit findings** for stakeholders and regulators.
- Helps in defending audit outcomes in legal or regulatory forums.

**ANS 4. What are the general features of Cost Accounting Records as per Companies (Cost Records and Audit) Rules, 2014? How do these rules affect corporate compliance?**

### **Overview:**

The **Companies (Cost Records and Audit) Rules, 2014**, notified under the **Companies Act, 2013**, specify the requirement for **maintaining cost records and conducting cost audits** in certain sectors.

## **General Features of Cost Accounting Records:**

1. **Comprehensive Coverage:**
  - Records should include **all cost elements** – materials, labor, overheads, utilities, inventory, etc.
  - Should be kept in a **systematic and consistent manner**.
2. **Reconciliation:**
  - Cost records must be **reconciled with financial accounts** to ensure accuracy.
3. **Product or Service-wise Costing:**
  - Separate cost statements for **each product or service** manufactured/provided.
4. **Compliance with CAS:**
  - Cost records must follow the applicable **Cost Accounting Standards (CAS)** issued by ICAI.
5. **Data for Cost Audit Report:**
  - Records should enable preparation of **CRA-3 (Cost Audit Report)**.
6. **Retention and Accessibility:**
  - Records must be **maintained for at least 8 years** and made available for audit/inspection.

## **Impact on Corporate Compliance:**

- Ensures **regulatory compliance** with Section 148 of the Companies Act, 2013.
- Non-compliance leads to **penalties** for the company and responsible officers.
- Strengthens internal control over **costing and pricing strategies**.
- Helps companies respond to **government audits, inquiries, or pricing regulations**.
- Encourages **transparency, cost optimization, and stakeholder trust**.