

Data Collection, Analysis and Cost Audit

(Some reflections from Experience)

Hyderabad Chapter of Cost Accountants

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World GDP Trends

PERIOD	INDIA	CHINA	JAPAN	USA	EUROPE	REST OF THE WORLD
1AD	33	27	1	0	14	25
1500AD	25	25	3	0	21	26
1820AD	15	33	3	2	27	20
1870AD	12	17	2	9	38	22
1950AD	4	5	3	28	31	29
2008AD	6	13	7	21	19	34
2014-15 AD*	6	13.43	5.97	22	18-19	35

Source The Economic Times Dt. 29/01/2008

[*International Monetary Fund World Economic Outlook \(April-2015\)](#)

Costing Systems at Glance

- **Cost Systems are not even adequate for routine, periodic management information**
- **Cost and Performance information are available from financial reports**
- **Companies have customized cost system separate from Financial systems**
- **Cost and Performance information are integrated into Organizational reporting**

Overview of current state of Cost Systems in manufacturing Industry

- Inadequate capturing of Direct Material Cost
- Excessive emphasis on Labour Cost
- Functional classification of Overheads
(Manufacturing, Administrative and Marketing)
- Simplistic allocation basis
(Machine/Labour Hrs, Material Consumption)

Contd..2

Overview of current state of Cost Systems in manufacturing Industry

- **Inadequate attention to service departments.**
(Product Development, Laboratories, Tpt., Mkt. Research)
- **Limited familiarity of Accountants with Operations**
- **Narrow role of Cost Accounting.**
- **Enhancing profits not by adopting Strategic Cost Management rather adopting unethical means**
- **Staff is merely doing simple accounting**

Objective of Costing

- **To achieve optimum economies**
- **Complete transparency**
- **Technical Cost determination**
- **Valuation of products and services for GST**
- **Money saved is money earned**

Cost Accounting Standards

- **CAS-1 : Classification of Cost**
- **CAS-2: Capacity Determination**
- **CAS-3: Overheads**
- **CAS-4: Cost of Production for Captive Consumption**
- **CAS-5: Determination of Average(equalized) cost of Tpt.**
- **CAS-6: Material Cost**
- **CAS-7: Employee Cost**
- **CAS-8: Cost of Utilities**
- **CAS-9: Packing Material Cost**
- **CAS-10: Direct Expenses**
- **CAS-11: Administrative Overheads**
- **CAS-12: Repair and Maintenance Cost**

• **Contd...2**

Cost Accounting Standards

CAS-13: Cost of Service Cost Centre

CAS-14: Pollution Control Cost

CAS-15: Selling and Distribution Overheads

CAS-16: Depreciation and Amortization

CAS-17: Interest and Financing Charges

CAS-18: Research and Development Cost

CAS-19: Joint Cost

CAS-20: Cost Accounting Standard on Royalty and Tech –know-how

CAS-21: Cost Accounting Standard on Quality Control

CAS-22: Cost Accounting Standard on Manufacturing Cost

CAS-23: COST ACCOUNTING STANDARD ON OVERBURDEN REMOVAL COST

CAS-24: COST ACCOUNTING STANDARD ON TREATMENT OF REVENUE IN COST STATEMENTS

Cost Auditing Standards

- Cost Auditing Standard-101 on **Planning an audit of Cost Statements;**
- Cost Auditing Standard-102 on **Cost Audit Documentation;**
- Cost Auditing Standard-103 on **Overall objectives of the independent cost auditor**
- Cost Auditing Standard-104 on **Knowledge of business, its processes and the business environment.**

Auditing Standards

- exposure draft

- **Cost Auditing Standard - 105 on 'Agreeing the Terms of Cost Audit Engagements'**
- **Cost Auditing Standard – 106 on 'Audit Sampling'**

Techniques to reduced Cost

- **Product Design**
- **Capture the activities that are attributable to each and every product**
- **Activity analysis (Value added and Non value Added)**
- **Identification and Allocation of Overheads on actual basis**
- **Evaluation of Make-or –Buy decision or Outsourcing**
- **Inter Supplier performance Comparisons**
- **Periodical review of Contracts**
- **Determine if Pricing and other policies are in place**
- **Marketing Channels & Distribution System**

Practical Aspect of Cost Controls

- **Raw Material Procurement Policy**
- **Handling of Material**
- **Power**
- **Consumables- GRINDING MEDIA**
- **Labour/Contractual labor**
- **Activity Analysis**
- **Waste management**
- **Packing Material**
- **Transportation –freight rates**

Raw Material Procurement Policies

- **Contract to single supplier for a particular specified period**
- **Delivery Schedule**
- **Freight element**
- **Try to bring the stock to zero level once**

Handling of Material

- **Minimize the handling operation**
- **It leads to wastage/spillage**
- **Increases Cost**
- **Diesel/Petrol Handling**

Consumables- Grinding Media

- **Performance appraisal of different suppliers**
- **Set Standards for Output**
- **Weight and Density**



Activities Analysis

- **Work out total time in process**
- **Work out productive activities**
- **Work out all non-productive activities**
 - **inspection time,**
 - **change over time,**
 - **shifting /movement of material etc.**
 - **waiting**

Labor Contracts

- **Review Labor Contracts**
- **Treat Labor as Human Assets**
- **Don't reduce labor for sake of Cost Control**

Waste Management

- **It's a skill to handle Waste Material**
- **Make workers aware about wastage**
- **Try to reuse waste material**
- **Identify its application in other area**
- **Try to realize maximum price**

Packing Material-HDPE bags

-Handling of Packing Material

-Contracts awarded to handle Packing Material

- unloading
- stacking
- shifting
- re-staking
- opening of bales/cartoons
- Stamping
- Packing/stacking
- Shifting to plant/packing house
- Stacking

- Identify duplicate material available

Transportation Freight

- **Rates with Unions**
- **Work out own transportation Freights**
- **Identify shortest routes**
- **Measure actual distance**

Data Collection and Analysis

Cost Records: main source of data collection
(CRA-3)

Analysis:n numbers

Cost Audit: Cost Audit Report Annexure and
Observations

Expectation from Cost Auditors

Over all Knowledge of Industry

Over all understanding of Organizations Business

Production process and operations

Product knowledge

Understanding to laws of land

Thank you

Power Sector

- Exempted under Excise
- Sales tax not applicable
- Subject to Electricity duty per unit or percentage to Bill amount basis
- Taxes applicable on Capital Goods/Inputs:

- Basic Excise Duty
- Custom Duty
- Countervailing Duty
- Special Additional Duty
- Service Tax on input services (@ 14%)
- Education Cess
- Income taxes

- Water Cess
- Royalty on Coal/Gas
- VAT on consumables/fuels
- Local Area Development/Rural area development tax
- Entry Tax
- Stamp duty
- State Electricity Duty (SED)

- **No relief in GST**

Power Sector

Transmission, Distribution and pilferage losses are equally responsible for high cost of Power in India. **Around 21% of total power generated in India get lost during Transmission and distribution which amounts to Rs. 21,08,520 lakh.** Percentage Losses of some of the other developed and developing countries are as under

Sr. No	Country	Percentage Loss
1	Bangladesh	10%
2	China	6%
3	Srilanka	12%
4	USA	6%