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Cost Accounting Standards in Manufacturing Industry- An Empirical Analysis

Dr. Manjunatha J M,
Assistant professor of Commerce, GFGC, Davangere.

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ABSTRACT:

This paper is attempts to explore the adoption of cost accounting standards in manufacturing industry. With the introduction of the regime of administered pricing in 1950 and the work of the Tariff Commission, which was tasked with fixing tariffs and prices in a number of industries, cost accounting principles in use in India began to take on a more formalized form. The efforts of other statutory price-fixing agencies, such as the Ministry of Finance's Bureau of Industrial Costs and Prices, gave the campaign even more traction. Due to the broad scope of the industries covered by these agencies' price inquiries, industry-specific procedures began to converge into a single set of cost accounting principles. Researcher has carried out this study with aid of secondary sources of data such as articles, books, research paper, reports, websites and many more. The cost of materials used in manufacturing, including process materials, labour costs, utility costs, packing costs, direct expenses, pollution control costs, quality control costs, research and development costs, and the cost of inputs obtained free of charge or at a discounted price from the excisable good's purchaser are all included in the cost of manufacturing. Depreciation and Amortization, which includes the amortisation cost of free tools, patterns, dies, drawings, blue prints, technical maps, charts, engineering, development, art, design work, plans, sketches, packaging material, and the like required for the production of excisable goods, Cost of Rework, reconditioning, retrofitting, Manufacturing Overheads, and other Cost Accounting Standards Board. Costs associated with such activity, adjustments for work-in-process inventory, and profits from the sale of scrap and other waste products are included, but not costs of the aforementioned sort incurred for post-manufacturing uses.

Keyword: Cost Accounting Standards, Manufacturing, Industryetc.

I. INTRODUCTION:

The Institute of Cost and Works Accountants of India's compilation of Generally Accepted Cost Accounting Principles (GACAP), which takes into account international norms as well, is a unique effort to record the principles and practices in the field of cost accounting in India.With the introduction of the regime of administered pricing in 1950 and the work of the Tariff Commission, which was tasked with fixing tariffs and prices in a number of industries, cost accounting principles in use in India began to take on a more formalized form. The efforts of other statutory price-fixing agencies, such as the Ministry of Finance's Bureau of Industrial Costs and Prices, gave the campaign even more traction. Due to the broad scope of the industries covered by these agencies' price inquiries, industry-specific procedures began to converge into a single set of cost accounting principles.

A standardized set of cost accounting principles was further strengthened by the adoption of the industry-specific Cost Accounting Record Rules. The Rules contained tidbits of cost accounting principles in the body of the rules and the footnotes to the structure of the mandated cost statements, even though they were designed to dictate the Cost Accounting records to be maintained by various businesses. The repetition of some of them in the Rules established for various industries contributed to the development of a set of cost accounting principles that are now widely accepted.As a result, the Rules included instructions on how to value materials that were purchased, handle major repairs, calculate the cost of transferring raw materials from one's own farms, and other similar topics. It cannot be disputed, however, that the Rules, as they were occasionally framed, did contain some inconsistencies, such as the valuation of sugarcane from one's own farm at market price and the valuation of wood from one's own forest at cost. Nevertheless, the Cost Accounting Record Rules did play a significant role in harmonizing the application of cost accounting principles across various industries.

OBJECTIVE:
To explore the adoption of cost accounting standards in manufacturing industries.

SCOPE:
At presently, there are 24 cost accounting standards exist in India. But this study covered only Material Cost, Labour Cost, Administrative Overhead, Depreciation and Amortisation, Selling and Distribution Cost, Repairs and Maintenance Cost andProduction Overhead.

II. METHODOLOGY:

Researcher has carried out this study with aid of secondary sources of data such as articles, books, research paper, reports, websites and many more.

COST ACCOUNTING STANDARDS:
Institute of Cost Accountants of India
ICMAI, previously known as the Institute of Cost & Works Accountants of India (ICWAI), is a premier statutory professional accountancy body in India under the jurisdiction of Ministry of Corporate Affairs, Government of India.
Objectives: Promoting, regulating and developing the profession of Cost & Management Accountancy.

Responsibilities:

- It is the only licensing cum regulating body of Cost & Management Accountancy profession in India.
- It recommends the Cost and Management Accounting Standards to be followed by companies in India to which statutory maintenance of cost records applicable.
- ICMAI is solely responsible for setting the auditing and assurance standards for statutory Cost Audit to be followed in the Audit of cost statements in India.
- It also issues other technical guidelines on several aspects like Internal Audit, Management Accounting etc. to be followed by practicing Cost Accountants while discharging their services.
- The ICMAI is a founder member of the International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA).
- ICAI is a member of the National Foundation of Corporate Governance (NFCG).

Following are the Cost Accounting Standards (CAS):

CAS- 3: PRODUCTION OVERHEAD:
Indirect costs for materials, employees, and expenses are included in overheads. They are referred to as indirect because they cannot be easily or economically allocated to the ultimate cost item, which is typically a good or service. Production overheads are unreimbursed expenses related to producing goods or providing services. Administration fees associated with production, factories, works, or manufacturing are included in production overheads. The phrase will also cover production-related costs incurred at the corporate office, such as design office costs, materials management, and labour relations. The names "production overheads," "factory overheads," "works overheads “and” manufacturing overheads" all refer to the same thing.Since overheads cannot be economically linked to particular goods and services, they are allocated to them on a fair basis. The guiding principle when allocating overheads is traceability to the cost object in an economically viable manner. The cost that can be directly linked to a cost object must be assigned.

CAS- 6: MATERIAL COST:
The costs associated with bringing the materials to their current state and location is typically included in the material cost. Material receipt is valued at the purchase price, which includes duties and taxes, freight inwards, insurance, and other expenses directly related to procurement (net of trade discounts, rebates, taxes and duties refundable or to be created by the taxing authorities), as long as they can be quantified at the time of acquisition with a reasonable degree of accuracy. Typically, material costs do not include procurement costs. However, the cost of the material includes all expenses that may be linked directly to the substance. To the extent that the material purchased is a result of such advances, development costs incurred in relation to the material purchased are included in the cost of material.When a material is acquired in exchange for other materials or services, the cost of the material obtained is determined by adding the cost of the item given or the cost of the services provided to other relevant charges, such as freight. Normal material loss or spoilage that occurs before it reaches the factory or the location where the services are rendered is included in the cost of the

remaining materials, less any money that can be recouped from suppliers, insurance, carriers, or proceeds from disposal.

CAS-7:LABOUR COST:

The cost of an employee, also known as labour, is calculated based on gross pay, which includes all owed allowances and benefits paid by the company. Bonus is regarded as a component of the employee cost, regardless of whether it is paid as a statutory minimum, on the basis of the distribution of surplus, or as Ex gratia. Whether the entire or a portion of the remuneration is computed as a percentage of profits, compensation payable to managerial personnel, including executive directors on the board and other officers of the corporate body under a statute, is considered to be part of the employee cost of the year under consideration.Performance bonuses must be added up over the course of the full production and cannot be recognized after the incentive's threshold is met. Costs associated with voluntary retirement, layoffs, terminations, etc. should be amortized throughout the time period that will profit from them. The cost does not include any compensation given to workers during a layoff, a strike, or a suspension. Employee share option costs are considered part of employee costs as long as they are noted as national costs and entail genuine cash outlays. Employee Cost includes gratuities, pensions, and other superannuation benefits that are calculated using an actuarial valuation method or another approach.

CAS-11: ADMINISTRATIVE OVERHEAD:

The total cost of resources used in activities related to an organization's general management and administration is known as administrative overheads.If an asset is leased under an operating lease, all rental payments will be considered a part of administrative costs; however, if the item is leased under a financial lease, the financing cost portion will be separated and considered a part of finance costs.The cost of software, whether it was created internally, bought, licensed, or was customized, should be amortized over the course of its useful life.The cost of administrative services that are assigned is calculated at the invoiced or agreed-upon price, which includes duties and taxes as well as other expenses that are directly attributable after deducting discounts (other than cash discounts) and taxes and duties that are refundable or to be credited. If not immediately traceable, the concepts of Cause and Effect or benefits obtained are used to assign administrative costs to cost objects.

It is preferred to move administrative expenses to users on a "readiness to serve" basis, such as installed capacity, forecasted sales, etc., rather on actual output or real sales, given the majority of administrative costs are fixed in nature. Even the drivers stated in above can be evaluated on the basis of anticipated rather than actual driving characteristics.

CAS- 12: REPAIRS AND MAINTENANCE COST:

The total of direct and indirect costs associated with repairs and maintenance activity is the cost of repairs and maintenance. The price of internal repairs and maintenance will include the price of the supplies, consumables, spare parts, labour, equipment use, utilities, and other resources required for the activity. Cost of Repairs and Maintenance activity performed inside the entity by outside contractors will include the contractor's fees in addition to the aforesaid internal cost. The invoice price or agreed-upon price, which includes duties, taxes, and other expenses directly attributable net of discounts (other than cash discounts), taxes and duties refundable or to be credited, is used to determine the cost of repairs and maintenance work performed by contractors on his property.The price of additional resources made available to the contractors will also be included. If material and recognizable, each sort of repairs and maintenance is classified as a separate activity. Each significant asset category's cost is calculated independently. When considering Repairs and Maintenance as a separate cost Centre, the cost of which is allocated to user centres, the cost of spare parts replaced that do not increase the future economic benefits of the existing asset beyond its previously assessed standard of performance are included under the Repairs and Maintenance cost.

Cas-15: Selling And Distribution Cost:

As necessary, selling costs can be reported in a way that makes customer/product profitability analysis easier. Thus, before being assigned to customers or products, selling costs can be traced to markets, distribution channels, territories, salespeople, etc.

Cas- 16: Depreciation And Amortisation:

Despite being a component of overheads, depreciation typically appears in the cost statements as a separate line item. This is due to its scale in today's technologically driven business and its distinctive quality of being non-cash cost.Because intangible assets are themselves classed with Fixed Assets in the presentation under

Schedule VI of the Companies Act, amortization of intangible assets sometimes gets lumped in with depreciation.The methods used in financial accounting are frequently reflected in how cost accounts evaluate depreciation.Depreciation is occasionally taken into account in books without taking into consideration the length of use. For instance, in financial accounts, 50% of the annual depreciation is taken for an item used for a day while taking into account income tax provisions. Depreciation calculated on a period-of-use basis will always be used by cost accounts, and the remaining balance will be used for reconciliation with financial accounts or costing profit and loss.

Companies must utilize regular rates of depreciation for cost accounting even when 100% of the depreciation is permitted in the first year for income tax purposes. Depreciation based on expected life is used for costing reasons, with the difference going toward costing Profit and Loss, even if an entity employs 100% depreciation rates in financial books of accounts.

In general, cost accounts follow the financial accounts practice of fully deducting low value goods at the time of purchase.There is a particular circumstance for cully depreciated assets in the case of ageing plants, which are still being used on a regular basis. For decision-making, several organizations still offer a national depreciation on these assets.Depreciation is charged to the Revaluation Reserve in the financial records based on the asset's write-up on the revaluation. For costing purposes, some companies calculate the depreciation on the revalued number to reflect the actual cost of depreciation.

III. CONCLUSION:

Typically, the relevant rules specify how cost information must be presented for statutory purposes. In a similar vein, the regulatory authorities set down the reporting requirements for regulatory purposes. For managerial purposes, managements set the presentation forms. The establishment of any model statements or forms in this text is therefore not deemed required.However, it is deemed necessary to emphasise a few commonly accepted disclosure procedures.Along with total cost, the cost statement must also include unit cost per unit of production.The Cost Statement must include output amounts and units of measurement.The ideal way to divide input expenses is into quantity and rate.The methodology used to value inputs must be disclosed.It is necessary to reveal the methodology used to allocate expenses to cost objects or cost centres.Foreign exchange expenses must be broken out separately.Costs that are not included must be disclosed.The disclosure of any credits or recoveries that are netted against costs is required.Related party transactions must be emphasized or stated individually.Cost elements, which are material for a product or activity, must be disclosed separately.Cost details of all ancillary products or activities may be maintained under a miscellaneous group and disclosed appropriately.Changes in the costing principles and methods applied must be disclosed with the effect.

REFERENCES:

- https://icmai.in/CASB/casb-resources.php