



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

23 September 2008

Our ref: ICAEW Rep 109/08

Your ref:

Stathis Gould
Technical Manager
Professional Accountants in Business Committee
International Federation of Accountants
545 Fifth Avenue, 14th Floor
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New York 10017
USA

By email: edcomments@ifac.org

Dear Stathis

Costing to Drive Organizational Performance

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on *International Good Practice Guidance on Costing to Drive Organizational Performance*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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**THE INSTITUTE
OF CHARTERED
ACCOUNTANTS**
IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 109/08

COSTING TO DRIVE ORGANIZATIONAL PERFORMANCE

**Memorandum of comment submitted in September 2008 by
The Institute of Chartered Accountants in England and Wales,
in response to IFAC Professional Accountants in Business
Committee consultation paper Costing to Drive Organizational
Performance published in June 2008.**

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the consultation paper *International Good Practice Guidance on Costing to Drive Organizational Performance*.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

The PAIB Committee would like to receive comments on all matters addressed in this proposed IGPG. Anyone offering comments should refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make explicit suggestions for proposed changes to wording.

4. Overall the Institute is supportive of this proposed International Good Practice Guidance (IGPG). We feel that it is a good example of what an IGPG should be, in that rather than a tutorial on basic techniques it focuses on principles and how they should be applied whilst exercising professional judgement. It also recognises the complexities, difficulties and cost/benefits trade-offs, and emphasises the need for transparency and ongoing reviews to ensure that the practices are kept up-to-date and relevant. We agree that these are key matters when using costing to drive organizational performance.

However, we feel that it does assume a certain level of knowledge that not all accountants may have.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

Q1: Do the principles cover all the fundamental areas in thinking about costing and how it drives organizational performance?

5. We believe that most of the key areas concerning the topic are addressed. However, considerations could be given to covering, or increasing coverage of, the following aspects:
- ☞ The impact of profit-related bonuses on decisions regarding cost allocation.
 - ☞ Financing costs including cost of debt, capital, funding, liquidity, currency risk etc.
 - ☞ The issue of business contribution across a shared cost base i.e. where a new business segment is not charged for its indirect costs as it is assumed that these 'would be incurred anyway'.
 - ☞ The behavioural aspects of cost accounting.
 - ☞ Joint products i.e. where the same process gives rise to two or more products, and the means of allocating costs in this situation.
 - ☞ It could be worth considering including project accounting as its own cost category. Whilst it is mentioned in other cost categories it could warrant its own section as increasingly professional accountants in business are involved in managing projects.

Q2: Is the application guidance for each principle adequate to guide good practice?

6. Overall we believe that the guidance on each principle is adequate. However, in respect of lean accounting (section 2.3.) we recognise that this term has come to be synonymous with cost cutting and elimination of waste. Whilst the Toyota model is seen as an example, there are similar models which emphasise the flexibility and agility of costing systems to respond to stakeholder demand. Lean accounting systems are frequently associated with downsizing and therefore it could be worth emphasising the benefits of right sizing for the type and scope of operations.

Q3: Is there national guidance on costing not already mentioned in appendix D that should be considered?

7. We welcome a global perspective but do not have any further comments on this area of the guidance.

Q4: Any further comments?

8. Comments on Appendix B: We assume that this list of terms is not intended to be exhaustive, however, it could be worth including 'relevant costing' and 'cost centre'.

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