FINAL EXAMINATION
GROUP - IV
(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER - 2017

Paper-19 : COST AND MANAGEMENT AUDIT

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
SECTION – A has one question which is compulsory. Attempt this question.
SECTION – B has seven questions. Attempt any five of them.
Working Notes should form part of the respective answers.
Wherever necessary, suitable assumptions may be made and disclosed by way of a note.
Please: (1) Answer all bits of a question at one place.
(2) Open a new page for answer to a new question.

Section – A (20 Marks)

Answer the following:

1. (a) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/ number(s). **1×5=5**

(i) The Cost Audit Report along with the observations shall be filed in Form CRA ____________.

(ii) The excisable goods not sold but used for consumption for manufacture in the production of other articles should be valued at ____________ of cost.

(iii) 'Sugar and Industrial Alcohol' belong to ________________ sector for the purpose of Application of Cost Records.

(iv) Administration Overheads is dealt in CAS _____________ .

(v) Cost Auditing Standard 102 deals with _____________ .

(b) State whether the following statements are TRUE or FALSE: **1×5=5**

(i) A job worker listed under Table A or B of the Rules and paying Excise Duty on behalf of the principal need not maintain cost records even if the transactions exceed the threshold limit.

(ii) The Cash Discount allowed on Cash Sales will be charged to Selling and Distribution overheads.

(iii) 'Related Party Transaction' means transfer of resources or obligations among persons related by blood relations.

(iv) The Audit Committee should recommend appointment and remuneration of the Auditor and also review and monitor the Auditor's independence and performance.

(v) Maximum amount of penalty payable by a Cost Auditor for non-compliance with the provisions of Companies (Cost Audit Report) Rules, 2014 is ₹ 5,000.

(c) Answer any five of the following in one or two sentences: **2×5=10**

(i) What is meant by 'Cost Records'?

(ii) How the Demurrage Charges be treated as per the CAS 15?

(iii) What are the objectives of the Cost Audit Standard 104?

(iv) Explain the 'Ageing Analysis' of Receivables.

(v) What is the scope of Government Audit?

(vi) State the basic objective to prepare a report on Performance Appraisal.

Answer:

1. (a) (i) CRA3
(ii) 110%
(iii) Regulated
(iv) 11
(v) Cost Audit Documentation

(b) (i) False.
(ii) False.
(iii) False
(iv) True.
(v) False.

(c) (i) As per Rule 2 (e) the Companies (Cost Records and Audit) Rules 2014, 'cost records' means 'books of accounts relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in Section 148 of the Act, and these Rules'. There cannot be any exhaustive list of cost accounting records. Any transaction statistical, quantitative or other details - that has a bearing on the cost of the product /activity is important and form part of the cost accounting records. Cost records are to be kept on regular basis to make it possible to "calculate per unit cost of production/operations, cost of sales and margin for each of its product for every financial year on monthly/quarterly/half-yearly/annual basis"

(ii) The CAS 15 deals with Selling and Distribution Overhead. As per CAS 15 any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the selling and Distribution Overhead.

(iii) The objective of the Cost Audit Standard 104 is to enable the cost auditor to have knowledge of the client's business, which is sufficient to identify and understand the events, transactions and practices that in the cost auditor's judgment may have a significant effect on the examination of the cost statements or on the preparation of the Cost Audit Report.

(iv) Accounts Receivable Ageing Analysis is a periodic report that categorizes a company's accounts receivables according to the length of the time an invoice has been outstanding .It is used as a gauge to determine the financial health of a company's customers. If an account receivables ageing demonstrates that a company receivables are being collected much slower than normal, this is a warning sign that business may be slowing down or that the company is taking greater credit risks in its sales practices.

(v) Governmental Audits are done by the Comptroller and Auditor general of India for financial statements of Government as per some declared standards. However, it goes a step beyond those standards that are applicable to audit of financial statements. The scope of a governmental audit is composed of three elements.

1. Financial Compliance
2. Economy and Efficiency
3. Results.

The typical definition of a financial audit would not include the elements 2 and 3. These are Operational Auditing Techniques.

(vi) The basic objective to prepare a report on Performance appraisal is to provide an actionable insight into costs and profitability for the management in strategic and operational context. It aims at discovering various drivers of costs and profitability and their impact on the selected performance variables. It would help the organisations:
- To improve profits and profitability
- To optimize resource allocation
- To optimize the product and Services Portfolio

Section - B (80 marks)

Answer any five questions (carrying 16 marks each) from question No. 2 to question No. 8.

2. (a) (i) What is meant by 'Normal Price' as per the Companies (Cost Records & Audit) Rules?

(ii) State the basis adopted in determining Normal Price.

(iii) How is this relevant for 'Related Party Transactions'? 3+2+3=8

(b) (i) What are the provisions in the Companies (Cost Records & Audit) Rules, 2014 (as amended) for maintaining records of Physical Verification of Fixed Assets and Inventory?

(ii) What are requirements of maintaining records of Fixed Assets as per the said Rules? 5+3=8

Answer:

2. (a) (i) "Normal Price" means price charged for comparable similar products in the ordinary course of trade and commerce where the price charged is the sole consideration of sale. Normal Price can be construed to be a price at which two unrelated and non-desperate parties would agree to a transaction and where such transaction is not clouded due to the proximity of the parties to the transaction and free from influence though the parties may have shared interests.

(ii) The basis adopted to determine normal Price are Usually classified as Under:

I. Comparable Uncontrolled Price Method
II. Resale Price method
III. Cost Plus method
IV. Profit Split Method
V. Transactional Net Margin method
VI. Any other method to be specified

(iii) In respect of Related Party Transactions or supplies made or services rendered by a company to a company termed "related party relationship" and Vice Versa , records shall be maintained showing Contracts entered into agreements or understanding reached in respect of (i) purchase and sale of raw materials, finished goods, rendering of services, process materials and rejected goods including scraps and other related materials (ii) utilisation of plant facilities and technical know-how (iii) supply of utility and any other services (iv) administrative, technical, managerial or any other consultancy services (v) purchase and sale of capital goods including plant and machinery and (vi) any other payment related to the production of goods or rendering of services under reference.

These records shall also indicate the basis followed for arriving rates charged or paid for such goods or services so as to enable determination of reasonableness of such rates in so far as they are in any way related to goods or services under reference.

(b) (i) As per Form CRA 1 of Rule 5(1) of the Companies (Cost Records & Audit) Rules, 2014, records of physical verification may be maintained in respect of all items held in the stock such as raw materials, process materials , packing materials , consumables stores, machinery spares, chemicals, fuels, finished goods and fixed assets etc .Reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records .

The Companies Auditor Report Order (CARO) 2016 has prescribed the Auditor to report on

i) Fixed Asset [Clause 3 (i)]
   - A) Whether the Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets?
   - B) Whether these fixed assets have been physically verified by management at reasonable intervals?
   - C) Whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account?

ii) Inventory [Clause 3 (ii)]
   - A) Whether physical verification of inventory has been conducted at reasonable interval by the management?
   - B) Whether any material discrepancies have been noticed on such verification and if so whether the same has been properly dealt with in the books of account?

ii) As per form CRA 1 of Rule 5(1) of the Companies (Cost Records and Audits) Rules, 2014, proper and adequate records of Fixed Assets shall be maintained for assets used for production of goods or rendering services under reference in respect of which depreciation has to be provided for. These records shall, inter-alia, indicate grouping of assets under each goods or service, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of depreciation. Keeping in view of the above Companies registered under Section 8 and OPC under the Companies Act 2013 are covered under the RULES.

3. (a) M/s Telekraft Paper Ltd., located in a costal state, had the following days of interruption out of total 300 working days during the year 2016-17: (a) Flood : 5 days and (b) Cyclone (2 times) - total 3 days. Disruption in working for 4 days (50% partial) occurred even after resumption of work. There was no cut in wages as lay-off was not allowed by the State Government. Find out the abnormal cost deductible from the product cost on the basis of the following expenses incurred in the Financial Year 2016-17:

			(₹ in lakh)
Direct Wages & Salaries	**1550**	**Indirect Wages & Salaries**	**970**
Power	**990**	**Depreciation**	**350**
Other Fixed Expenses	**680**	**Finance Charges**	**235**

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(b) (i) The Board of Directors of XYZ Ltd. appointed M/s. Luthra & Co., Cost Accountants, as Cost Auditor of the company for the Financial Year 2017-18. On receipt of the appointment letter, what statement or declaration needs to be submitted by the Auditor to the company?

(ii) Whether companies registered under Section 8 of the Companies Act, 2013 (Non-profit Orgn.) and One-Person Company (OPC) introduced in the Companies Act, 2013 are covered under the Rules? 4+4=8

Answer:

3. (a) As per CAS 6, Abnormal Cost is defined as a typical or an unusual cost due to some abnormal situation of the production or operation. Any abnormal cost is excluded from total cost. In the present case, the following expenses are excluded from total expenses:

1. The finance charge is not charged to cost of production but is shown under the head 'Cost of Sales' (CAS 17)
2. Power is a direct cost and is excluded from the total expenses
3. Direct wages and Salaries is a variable cost but in the given situation, no lay off was made and hence is treated as fixed cost.
4. Depreciation is treated as fixed cost by its very nature.

Accordingly the total expenses for the year comes to:

	₹ in Lakhs
Direct Wages and Salaries	1,550
Indirect wages and Salaries	970
Other Fixed Expenses	680
Depreciation	350
	3,550

The abnormal cost will be = 3550*(10/300) = ₹118.33 Lakhs (Flood 5 days + Cyclone 3 days + Disruption in working 50% of 4 days =10days)

(b) (i) As per rule 6 sub-rule (1) of the Companies (Cost Records and Audit) Rules 2014, the cost Auditor on receipt of offer of appointment shall furnish a written consent to such appointment, and a certificate as provided in Sub-rule (1A) .The Cost Auditor appointed under Sub-Rule (1) shall submit a certificate that

a) The individual or the firm as the case may be is eligible for appointment and is not disqualified for appointment under the Companies Act 2013, the Cost and Works Accountant act, 1959 and the rules or regulations made there under
b) The Individual or the firm , as the case may be satisfies the criteria provided in section 141 of the Act ,so far as may be applicable
c) The proposed appointment is within the limits laid down by or under the authority of the act; and
d) The list of proceedings against the Cost Auditor or the audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

(ii) The Companies (Cost Records and Audit) Rules, 2014 are applicable to every company registered under the Companies Act, 2013 which are engaged in production of goods or provision of services listed in Table-A or Table-B of Rule 3. Different threshold limits have been prescribed in the Rules for applicability of maintenance of Cost Accounting Records and coverage under Cost Audit. Exemption has been granted only to the companies which are classified as a micro enterprise or a small enterprise, including as per the turnover criteria under Sub-section (9) of section 7 of the Micro, Small and Medium Enterprise Development Act, 2006 and the foreign companies having only liaison offices engaged in Production, import and supply or trading of medical devices specified under Item 33 of Table-B of Rule 3. Any other legal entity, registered as a company that meets the conditions stated in Rule 3 and Rule 4 are covered.

4. (a) (i) What are the areas the Cost Accounting Policy of a company will cover in the Cost Audit Report?

(ii) Ambica Textile Mills produced cloth and fabrics. In addition, they undertook customer's job order for processing of cloth towards optimum utilisation of its spare capacity and earned from loan licence. From the following Income figures,

find out the turnover of the company as per the Companies (Cost Records and Audit) Rules:

Income	(₹ in lakh)
Sales (include Excise Duty 1200)	20,500
Trading Sales from Depots	1,250
Export Income	2,100
Export Duty	450
Income from Job Processing	1,100
Scrap Sale	235
Income from Loan Licence operations	560

3+5=8

(b) The financial profit and loss account for the year 2016-17 of a company shows a net profit of ₹29,60,000. During the course of Cost Audit, it was noticed that:

(i) The company was engaged in trading activity by purchasing goods at ₹ 6,00,000 and selling it for ₹ 7,50,000 after incurring repacking cost of ₹ 25,000,

(ii) Some discarded assets sold off with no scrap value for ₹ 90,000,

(iii) Some renovation of machinery was carried out at a cost of ₹ 6,00,000, having a productive life of five years, but entire amount was charged to financial accounts,

(iv) Interest was received amounting to ₹ 1,40,000 from outside investments,

(v) Voluntary Retirement payment of ₹3,50,000 was not included in the Cost Accounts,

(vi) Insurance claim of previous year was received to the extent of ₹ 2,50,000 but was not considered in the Cost Accounts,

(vii) Opening stock or raw materials and finished goods was overvalued by ₹ 2,40,000 and closing stock of finished goods was overvalued by ₹1,10,000 in the financial accounts, and

(viii) Donation of ₹80,000 towards CSR commitment was not considered in the Cost Accounts.

Work out the profit as per the Cost Accounts and briefly explain the adjustment, if any, carried out. 8

Answer:

4. (a) (i) Annexure Part A-3 to the Cost Audit Report as per the Companies (Cost Records and Audit) Rules 2014, describe the Cost Accounting Policy of the Company . The Policy shall cover the following points:

a) Identification of Cost centres, Cost objects and Cost drivers
b) Accounting for materials costs including packing materials, stores and spares, employee cost, utilities and other relevant cost components
c) Accounting, allocation and absorption of Overheads
d) Accounting for depreciation/amortization
e) Accounting for by-products/joint -products or services, scraps, wastage , etc
f) Basis for inventory valuation
g) Methodology for valuation of inter-Unit/inter-Company and Related Party Transactions
h) Treatment of abnormal and non-recurring costs including classification of other non-cost Items.
i) Other relevant Cost Accounting Policy adopted by the Company.

(ii) As per the Companies Act, 2013, Turnover means gross turnover made by the company from the sale or supply of all products and services during a financial year but excluding duties and taxes.

Income	₹ in Lakh
Sales (20,500-1,200)	19,300
Trading Sales from Depots	1,250
Export Income	2,100

Income from Job Processing	1,100
Scrap Sale	235
Income from Loan License Operations	560
Total Turnover	24,545

(b) Profit Reconciliation as per Cost and Financial Records for the year 2016-17

	Particulars	₹ in "000	₹ in "000
1	Profit as per Financial Accounts for Audited Products		29,60,000
2	Less : Incomes not considered in the Cost Accounts		
	a) Trading Profit (7,50,000-6,00,000-25,000)	1,25,000	
	b) Profit on Sale of Old Assets	90,000	
	c) Interest received from Outside Investments	1,40,000	
	d) Insurance claim for previous year received	2,50,000	
	Total		6,05,000
3	Add : Expenses not considered in the Cost Accounts		
	a) Donation towards CSR Commitment	80,000	
	b) VRS Expenses	3,50,000	
	c) Renovation (4/5th Outlay of 600000)	480000	
	Total		9,10,000
4	Valuation of stocks (240000-110000)(Overvaluation of opening stock and closing stock in financial accounts)		1,30,000
5	Other adjustments		---
	Profit as per the Cost Accounts		33,95,000

5. (a) A company, manufacturing electronic goods, invests 2% of turnover on R&D projects. Though the outcome from such investment was considered satisfactory, it apprehends threats from global competitors in the coming days. In order to retain the market share of its product range, it has approached you as a Management Auditor to examine the adequacy and cost effectiveness of its R&D programme. Discuss about major questions which your Audit should address. 10

(b) Define the terms: Installed Capacity, Normal Capacity and Abnormal Idle Capacity as per the CAS 2 of the Rules. 6

Answer:

5. (a) With the evaluation of management practice, it is realized that somewhat different techniques and approaches are required for management audit of research and development activity as a separate area as it involves dealing with creative people not falling into a predictable pattern of accomplishment. Moreover, it requires operations and development efforts in a relatively unknown area. A management auditor of a company can appraise and evaluate the activities of research and development on the basis of the following checklist:-

(a) What are the major achievements of the R&D?
(b) What is the input-output ratio?
(c) Whether the R&D scientist have actual operating experience in industry in order to visualize what they are developing?
(d) What are strategic issues formulated at the Board level relating to industrial research?
(e) How does the company formulate its approach on the annual outlay on research and development?
(f) Whether the outlay on R&D is a fixed sum, a percentage of turnover, of profits, or capital investment, or on industry average?
(g) Whether the Board of Directors identify or endorse the broad "types of research" to be under taken in order to ensure that the efforts are concentrated in line with

the defined goals?
(h) Whether the R&D is considered as an independent department in the company?
(i) Whether the R&D is viewed as a separate profit centre?
(j) What is the level and extent of contribution of the company's profit through sale of technologies?
(k) Whether there is proper coordination between the R&D cell and corporate planning cell?
(l) Are the guidelines from the Board clear and workable?
(m) How is the R&D budget formulated?
(n) Whether the R&D results are properly recorded, classified and analysed?
(o) How are the following areas of activity accomplished –
  (i) Monitoring the existing projects?
  (ii) Review of viability of projects in order to assign priorities?
  (iii) Transfer of technology to project and operations sections?
  (iv) Liaison with other departments and with outside agencies?
(p) Whether the control scheme for a particular R&D programme realistic and effective in relation to-
  (i) Long-term programme?
  (ii) Short-term programme?
  (iii) Periodical assessment of results with the predetermined budgets and correlated ideas?
  (iv) Authorization of expenditure?
  (v) Analysis of cost-effectiveness?
(q) What successes and failures occurred in the past?
(r) From commercial view point-
  (i) Where savings were brought in by improved process?
  (ii) What were R&D costs on new products developed as compared with sales and profits arising from these products?
  (iii) What was the cost of R&D on improvement of existing products and resultant increase in sales and profits?

(b) (i) As per the Cost Accounting standard 2, "Installed capacity" is the maximum capacity of producing goods and providing services determined either based on technical specifications or the facility or through a technical evaluation .

"Normal capacity" is the volume of production or services achieved or achievable on an average over a period under normal circumstances taking into account the reduction in capacity resulting from planned maintenance.

"Abnormal Idle Capacity" is the difference between the normal capacity and the actual capacity utilization where the actual capacity is lower than normal capacity.

6. (a) A company incurred the expenses given below during the Financial Year 2016-17. Find out the Employee Cost as per the CAS 7.

	₹
Gross Pay (including the cost of idle time hours paid to the employees ₹ 25,000)	**10,30,000**
Accommodation paid to the employees free of cost	**1,00,000**
Subsidy for Canteen, Recreation Club	**90,000**
Group Insurance	**3,000**
Employer's Contribution to PF & ESI	**1,00,000**
Employees' Contribution to PF & ESI	**75,000**
Festival Bonus	**85,000**
Unamortised amount of Employee Cost related to discontinued operation	**90,000**
Employee Training Cost	**2,00,000**

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(b) (i) ABC Ltd., a public limited company not listed in Stock Exchange, had turnover of ₹250 crore in the year 2016-17. Is the company under obligation to appoint an Internal Auditor? Will the answer differ if the company

(a) is a private limited company?

(b) is a producer company?

(ii) In case of In-house Internal Audit, how to ensure quality in Internal Audit? 4+4=8

Answer:

6. (a) Computation of Employee Cost ₹

Direct Cost : Wages (10,30,000 - 25000)	10,05,000
Employer's Contribution to PF & ESI	100,000
Cost of Accommodation , etc	100,000
Festival Bonus	85,000
Indirect Cost : Training Cost	200,000
Unamortised employee Cost related to discontinued operation	90,000
Group Insurance	3,000
Subsidy for Canteen , Recreation Club	90,000
Total:	16,73,000

Note:

1) Idle time wages is considered as an administrative cost and are not included in wages.
2) Contribution to PF and ESI by the employee is not cost to the employer.

(b) (i) Sec 138 of the Companies Act, 2013 prescribes that, the Central Government may by notification prescribe rules for appointment of Internal auditors. The Companies (Accounts) Rules, 2015 states that every unlisted company having turnover of ₹ 200 crore or more per annum should appoint an internal auditor.

The answer will not differ if the company is a private company since as per the above Rules, a private company having a turnover of ₹ 200 Crore or more need to appoint an internal auditor.

Sec 581ZF of the Companies Act, 2013, requires that every producer Company shall have internal audit of its accounts carried out by a Chartered Accountant at such interval and in such manner as may be specified in the articles.

(ii) A proper organisation structure for internal auditing department ensures its relative independence so that it can carry out its work freely and objectively and render impartial and unbiased decision when internal auditing function is carried out in-house.

The purpose of the review for quality of performance is to ascertain whether the organization's objectives and goals have been achieved.

The primary objectives of internal audit are to ensure –

(i) reliability and integrity of information
(ii) compliance with policies, plans, procedures, laws and regulations,
(iii) the safeguarding of assets,
(iv) the economical and efficient use of resources,
(v) the accomplishment of established objectives and goals of operation or programmes.

7. (a) 'Operational Audit' is a tool of the Management to improve operational efficiency. Identify the focus areas of Operational Audit as distinct from Internal Audit.

(b) A company intends to arrange payment of wages and other monetary benefits to the workers by e-payment only. State the steps to be taken by the Personnel Department in this regard.

(c) State the areas to be covered in 'Corporate Social Responsibility (CSR) Audit'.

8+4+4=16

Answer:

7. (a) Operational Audit is review of operational methods and procedures .To that extent it is no more than Internal Audit extended to operational areas . However, as applied to operational areas the attempt must be not only to evaluate controls but also to assess the effectiveness of existing procedures to meet the objectives and plans of the department which is being audited. The distinction between the two are illustrated:

Internal Audit	Operational Audit
1. Compliance Objective	Risk Identification , Process Improvement
2. Financial Account Focus	Business Focus
3. Audit Focus	Efficiency and Improvement Focus
4. Transaction based	Process based
5. Policies, procedure Focus	Risk Management focus
6. Cost Centre-wise Budget Monitoring	Accountability and improved results
7.Focus on Policies, Transaction	Focus on Goals, strategies, risk management

Internal auditing whether by statutory compulsion or initiated by the management mainly covers the areas of

- Reliability and integrity of financial and operating information
- Compliance with laws, regulations, policies
- Safeguarding of assets
- Economic and efficient use of resources and
- Accomplishment of established goals of operations

The objective of Operational audit may be briefly listed as appraisal of the relevant departments, assessment of the procedures to achieve the objectives and plans, evaluation of quantitative measures to monitor performance and measure improvement of productivity.

Since operating departments would be structuring their methods and procedures based on their objectives and plans, such objectives and plans have to be appraised. Restatement or changes in the definitions of the objectives could have an impact on the plans and similar change in the plans may make it advisable to redefine the objectives. Hence appraisal of plans and objectives becomes essential and the first step in Operational Audit.

The procedure in the department has to be reviewed and appraised to assess their effectiveness in achieving the objectives and plans with the given resources. It should develop a few quantitative measures to monitor their performance. The trend of such measures, the usefulness of such indicators as well as their reliability may have to be appraised as part of operational auditing. Appraisal of productivity is all embracing and covers the effectiveness of entire operations of the concerned department.

(b) Sec 6 of the payment of Wages Act, 1936 as amended allows payment of wages to workers by cash or other than cash i.e. by cheque or by crediting the wages in the bank account of the employee. The state government is empowered to issue directions to all establishments of the state for payment of wages to their workers by cheque or by crediting their respective bank accounts only. The personnel department in compliance to the state government's direction should arrange for such payment. The management of the concerned department needs to ensure the following:

a. Issue notice to all workers stating the directions of the state government and the steps taken by management in this regard
b. A proforma issued to all workers to fill in the bank particulars stating the 1. Account no 2. Name and address of the bank 3. NEFT/RTGS no.
c. In case the worker does not have a bank account, he/she should be advised to open the account within a specified timeframe and the management should assist the worker in case of any difficulty faced by him/her in trying to open a bank account.
d. Each worker has to register their nomination details with the bank.
e. The payment slip should indicate the payment particulars and the mode of payment made by the company
f. In case the worker is not on duty but on leave or on suspension or otherwise an intimation to be sent to his/her official address.
g. Helpdesk of personnel department should redress the problems faced by each worker initially and also in future.

(c) The areas that 'Corporate Social Responsibility' audit should primarily cover are stated below:

- Human Rights: Fundamental human rights, Freedom of association and Collective Bargaining, Non-discrimination, Forced Labour, Child Labour.
- Business behaviour: Relations with clients suppliers and sub-contractors, prevention of corruption and anticompetitive practices.
- Human Resources: Labour relations, Working Conditions including steps taken for preventing accidents and health hazards, health and safety measures including compensation in case of any accidents, career development and training, remuneration system that motivates the employees
- Corporate Governance: Board of Directors, Audit and Internal controls, treatment of shareholders, executive remuneration
- Environment: Incorporation of environmental conditions into the manufacturing and distribution of products and into their use and disposal, effect on pollution, pollution control measures undertaken
- Community Involvement: Impacts on local communities, contribution to social and economic development, general interest causes, creation of social infrastructure like roads, schools, hospitals etc.

8. (a) Discuss the role of the Comptroller & Auditor General of India in the Propriety Audit of a Government company.

(b) Write a short note on "Customer Costing in Service Sector".

(c) A Cost Accountant has taken voluntary retirement from his/her employer and has started practice. He/she continues his/her association with his/her previous employer as an advisor, on a monthly retainer basis. State whether the practice amounts to Professional Misconduct. 6+6+4=16

Answer:

(8) (a) According to section 139(5) of the Companies Act 2013, in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of one hundred and eighty days from the commencement of the financial year, who shall hold office till the conclusion of the Annual general meeting.

Under 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. However, some general principles have been laid down in the audit code, which have for long been recognized as standards of financial propriety. Audit against propriety seeks to ensure that expenditure conforms to these principles which have been stated as follows:

1. The expenditure should not be prima facie more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
2. No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
3. Public moneys should not be utilised for the benefit of a particular person or section of the community unless: (i) the amount of expenditure involved is insignificant; or (ii) a claim for the amount could be enforced in a court of law; or (iii) the expenditure is in pursuance of a recognised policy or custom; and (iv) the amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.

(b) The central theme of customer costing approach is customer satisfaction. In some service industries, such as public relations, the specific output of industry may be difficult to identify and even more difficult to quantify. Further, where there are multiple customers, identifying support activities i.e. common costs with particular customer may be more problematic. In such cases, it is important to cost customers. An analysis based on Activity Based Costing of customers profitability provides valuable information to help management in pricing customer.

For customer costing purpose, the costs are divided into following categories. These are:

(i) Customer Specific costs:
These are the direct and indirect cost of providing service to each customer plus customer related cost assigned to them. For example in courier service customer may request delivery of an important document overnight.

(ii) Customer-line categories:
These are the cost which are broken into the broad segments of customers and not individual customer. Delivery of study materials to students of CMA course by India Post comes under this category.

(iii) Company costs:
These are those costs which are not allocated to either customer line or individual customers but charged to company. The example is the cost of R&D to promote sale of service.

(c) A cost accountant in practice can rightly in his/her professional capacity advise their client, whether against fees or not. The accountant under reference has severed his/ her connection with their previous employer as an employee and acts only in an advisory capacity, which is a legitimate activity of a practising Cost Accountant. It does not amount to professional misconduct.