



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

1. (a) Choose the correct option: [15 x 2 = 30]
- (i) The report on the audit of cost records is submitted by the cost auditor to _____.
A. Managing Director
B. Finance Director
C. Audit Committee
D. Board of Directors
- (ii) Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within _____ days of occurrence of such vacancy.
A. 30 days
B. 60 days
C. 90 days
D. 7 days
- (iii) In Cost Audit Report, General Information is reported in _____.
A. Part-A-1
B. Part-A-2
C. Part-A-3
D. Part-A-4
- (iv) Cost Auditor to report fraud under section _____ of Companies Act, 2013.
A. Section 140 (12)
B. Section 148 (3)
C. Section 144 (3)
D. Section 143 (12)
- (v) CAS 21 deals with _____.
A. Cost of service cost centre
B. Quality Control
C. Capacity determination
D. Cost classification



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

- (vi) When the Cost Auditor of the company shall be appointed for F.Y. 2024-25?
A. Before 31.03.2023
B. Before 31.03.2024
C. Within 60 days from the start of FY - i.e. 30.05.2024
D. Within 180 days from the start of FY -i.e. 27.09.2024
- (vii) Which Cost Auditing Standards requires Cost Auditor for forming and expressing an opinion on the Cost Statements?
A. 101
B. 102
C. 103
D. 104
- (viii) In comparison to the independent auditor an internal auditor is more likely to be concerned with:
A. Cost accountancy system
B. Internal control system
C. Legal compliance
D. Accounting system
- (ix) The main objective of investigation is _____.
A. To discover errors and frauds.
B. To prevent errors and frauds.
C. To verify statements.
D. All the above.
- (x) Concept of Red Flag pertains to which Audit?
A. Productivity Audit.
B. Energy Audit.
C. Inventory Audit.
D. Forensic Audit.

Answer:

i	ii	iii	iv	v	vi	vii	viii	ix	x
D	A	A	D	B	D	C	B	D	D



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

(b) Following are the Cost Components of Product A:

Particulars
Sale
Raw Material
Utilities
Packing Material
Employee Cost
Consumable Stores
Repair expenses
Depreciation
Insurance
Overheads

- (i) Which cost component is variable in nature?
- A. Raw Material
B. Employee Cost
C. Consumable Stores
D. Overheads
- (ii) Which cost component is related to aging of Plant & Machinery?
- A. Raw Material
B. Packing Material
C. Consumable Stores
D. Overheads
- (iii) Concept of OEM (Original Equipment Manufacture) is related to which cost component?
- A. Raw Material
B. Utilities
C. Consumable Stores
D. Insurance
- (iv) Source of which Cost component is Fixed Asset Register?
- A. Consumable Stores
B. Repairs
C. Depreciation
D. Insurance
- (v) Which Cost Element involves Expenses which are of discretionary in nature?
- A. Utilities
B. Packing Material
C. Insurance
D. Overheads

Answer:

i	ii	iii	iv	v
A	C	C	C	D



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

SECTION – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5x14=70]

2. (a) Describe the scope of Cost Audit

[7]

Answer:

The primary objective of 'Cost Audit' is ensuring accuracy of cost data, accumulation and exact computation of the cost of a product. However, the vast scope of Cost Audit works as a mirror of entity's performance. The tune is perfectly captured in the definition of 'Cost Audit' propagated by the professional bodies entrusted with the responsibility of regulating and monitoring Cost Audit.

In today's dynamic business world, to become competitive in every product or services of the entity is of paramount importance. Hence, the prime mover of pricing and attached quality can only be ensured through appropriate cost structure. In view of this, 'cost audit' refers to the detailed verification of the correctness of costing techniques, costing systems, and cost accounts. It is necessary to ensure that records maintained for the purpose are accurate and correct to drive entity's decision making process.

Beyond propriety, Cost Audit scope encompasses overall 'efficiency' and its' improvement. The wider scope of Cost Audit can help-

- a. Control over element-wise cost
- b. Help in determining Sales Price and margin
- c. Assist Management in decision-making
- f. Necessity and results from each of the activity performed
- g. Minimizing wastages, if any
- h. Accuracy of inventory valuation
- i. Overall efficiency improvement of the entity

Hence, Cost Audit not only to be considered as a Compliance tool (where the same is mandatory), the outcome is far reaching to go 'beyond compliance'.

(b) Explain the applicability criteria for cost audit as per the companies (Cost Records and Audit) Rules, 2014 along with exemption provided under these rules.

[7]

Answer:

- (1) Every company specified in item (A) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees twenty-five crore or more.



COST AND MANAGEMENT AUDIT

- (2) Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees thirty-five crore or more.
- (3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3; and
- (i) whose revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue; or
 - (ii) which is operating from a special economic zone;
 - (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term “Captive Generating Plant” shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005.

3. (a) **Discuss the qualifications of a cost auditor under section 141 of the companies Act, 2013.** [7]

Answer:

Applicability of Section 141 of the Companies Act, 2013, with respect to the Qualification of Cost Auditor, to be read along with Section 148 of the Companies Act, 2013, Cost and Works Accountants Act, 1959 and Companies (Cost Records and Audit) Rules, 2014

Section 148 (5) of the company's act, 2013, inter alia provides that qualifications as applicable to auditor (financial) is also applicable to cost auditor, so far as may be applicable.

In view of what is stated above, Qualification of Cost Auditor are enumerated as given below:

- 1) A person shall be eligible to for appointment as cost auditor who is a cost accountant. [Section 148(3)]
- 2) Cost Accountant means a Cost Accountant as defined in clause (b) of sub-section (1) of Section 2 of the Cost and Works Accountants Act, 1959 and who holds a valid certificate of practice under sub-section (1) of Section 6 of the Cost and Works Accountants Act, 1959. {Section 2 (28)}
- 3) “Cost Accountant” means a person who is a member of the Institute [clause (b) of sub-section (1) of Section 2 of Cost and Works Accountants Act, 1959.
- 4) A person is a member of the Institute if his name appears in the Register of the Institute {Subsection (2) of Section 19 of Cost and Works Act, 1959}
- 5) An Individual or Firm, as the case may be is eligible for appointment as cost auditor provided he / it satisfies the criteria as provided in section 141 of the Act {Sub Section (b) of Section (1A) of Rule 6 of Companies (Cost Records and Audit) Rules, 2014.
- 6) Proviso to subsection (1) of Section 141 provides that a firm can also be appointed by its firm name as cost auditor of the company if majority of its partners practicing in India are qualified for appointments as cost auditors of the company.
- 7) Sub-Section (2) of Section 141 provides that where a firm including a limited liability partnership (LLP) is appointed as Cost Auditor of the company, only the partners who are cost accountants shall be authorized to act and sign on behalf of the firm.



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

- (b) **Describe the critical elements that must be stated in the cost auditor's report, as per the applicable legal and regulatory requirements.** [7]

Answer:

Cost audit helps in detection of errors and frauds. The management gets accurate and reliable data based on which they can make day-to-day decisions like price fixation, margin, continuity or outsourcing, make or buy etc. It helps in cost control and finding avenues of cost reduction.

The following critical elements must be stated in the cost auditor's report:

- (a) Whether the machines and labour remained idle during the year because of the shortage of raw materials.
- (b) Whether a large quantity of raw materials were stocked which remained unutilized for a long time, thereby locking up the working capital of the company.
- (c) He should state whether the cost records maintained by the company were adequate for the purpose of audit.
- (d) He should state whether the broad policy laid down by the management was faithfully followed.
- (e) The report should concentrate more on the cost of production, comparative profitability, and operating efficiency of different lines in which the company is engaged rather than the routine statistical or financial information.
- (f) The cost auditor should state if there has been a rise in the cost of production as compared to that of the previous year. He should analyse the causes of such a rise. He should clearly point out where the problem originates from.
- (g) The report should state if there has been any wastage during the process of manufacture and how it could be avoided.
- (h) The cost auditor should also mention the areas in which it is possible to reduce the cost of production.
- (i) He should state whether or not the cost statement reveals a true and fair view of the cost of production.

Every Company covered under this rules, within a period of 30 days from the receipt of the cost audit report to submit /upload in XBRL Format the detail and report with full information and explanations on every reservations or quantification contained therein in CRA-4 as specified in the Company's Filing of Documents and Forms in XBRL Rules 2015 in MCA Portal. This helps Companies to integrate Financial and Cost datum across all operational areas for better control.

4. (a) **A plant operates 3 shifts of 8 hours each for all days except Sundays and 8 holidays. Preventive maintenance is taken care in Sundays and annual maintenance in 8 holidays. Normal idle time for food, shift change and other work for the workers is 1 hour per shift. Installed Capacity of the machine = 1200 units per hour.**
Production during last 5 years & Current year are 69.4, 72.6, 71.4, 70.5, 70.8, 69.9 lakh units. Calculate (According to CAS 2), Installed capacity, Actual capacity, Idle capacity, Abnormal idle capacity. [7]



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

Answer:

- (i) Installed capacity = days in year × working hours per day × unit per hour = $365 \times 8 \times 3 \times 1200$ unit = 105.12 lakh units
- (ii) Available capacity = days available × available hour per shift × shifts × units per hour = $(365 - 52 - 8) \times (8 - 1) \times 3 \times 1200 = 76.86$ lakh units
- (iii) Normal capacity = $69.4 + 72.6 + 71.4 + 70.5 + 70.8 / 5 = 70.94$ Lakhs units
- (iv) Actual capacity = Current production / Installed capacity = $69.9 / 105.12 = 66.50\%$
- (v) Idle capacity = Installed capacity – Actual capacity = $105.12 - 69.90 = (35.22/105.12) \times 100 = 33.50\%$
- (vi) Abnormal Idle capacity = Normal capacity – Actual capacity = $76.86 - 69.9 = 6.96$ lakh units
- (b) **Opening stock of raw materials (5,000 units) ₹1,80,000; Purchase of Raw Materials (17,500 units) ₹7,00,000; Closing Stock of Raw Materials 3,500 units; Freight Inward ₹85,000; Self-manufactured packing material for purchased raw materials only ₹60,000 (including share of administrative overheads related to marketing sales ₹8,000); Demurrage charges levied by transporter for delay in collection ₹11,000; Normal Loss of materials due to shrinkage in transit 1% of materials purchased; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. Calculate the value of Closing Stock (Average Cost Method).** [7]

Answer:

Computation of value of closing stock of raw materials [Average Cost Method]

	Particulars	Quantity (Units)	Amount (₹)
	Opening Stock of Raw Materials	5,000	1,80,000
Add	Purchase of raw materials	17,500	7,00,000
Add	Freight inwards		85,000
Less	Abnormal Loss of raw materials (due to absorption of moisture before receipt of materials) = $[(7,00,000 + 85,000) \times 100]/17,500$	(100)	(4,486)
Less	Normal loss of materials due to shrinkage in transit [1% of 17,500 units]	(175)	-----
Add	Cost of self-manufactured packing materials for purchased raw materials only (60,000 – 8,000)		52,000
	Cost of raw materials	22,225	10,12,514
Less:	Value of Closing Stock $= \frac{\text{Total Cost}}{\text{Total units - Units of Normal Loss}} \times \text{Closing Stock units}$ $= \frac{10,12,514}{5,000 + 17,500 - 175} \times 3500$	(3,500)	(1,58,737)
	Cost of Raw Materials Consumed	18,725	8,53,777



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

Note:

- (i) Units of normal loss adjusted in quantity only and not in cost, as it is an includible item
- (ii) Cost of self-manufactured packing materials does not include any share of administrative overheads or finance cost or marketing overheads. Hence, marketing overheads excluded.
- (iii) Abnormal loss of materials arose before the receipt of the raw materials, hence, valuation done on the basis of costs related to purchases only. Value of opening stock is not considered for arriving at the valuation of abnormal loss.

5. (a) **The Cost Accountant of TRINCUS TEXTILES MILLS LTD. has arrived at a Profit of ₹20,10,500 based on Cost Accounting Records for the year ended March 31, 2024. Profit as per Financial Accounts is ₹22,14,100.**

As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

	Particulars	₹
(1)	Profit on Sale of Fixed Assets	2,05,000
(2)	Loss on Sale of Investments	33,600
(3)	Voluntary Retirement Compensation included in Salary & Wages in F/A	50,25,000
(4)	Donation Paid	75,000
(5)	Insurance Claim relating to previous year received during the year	5,08,700
(6)	Profit from Retail trading activity	32,02,430
(7)	Interest Income from Inter-Corporate Deposits	6,15,000
(8)	Decrease in value of Closing WIP and Finished goods inventory	
	as per Financial Accounts	3,82,06,430
	as per Cost Accounts	3,90,12,500

Prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2024.

[7]

Answer:

Reconciliation of Profit between Cost and Financial Accounts for the year ended 31st March, 2024

Particulars	₹	₹
Profit as per Financial Accounts:		22,14,100
Add: Loss on sale of investments	33,600	
Add: Voluntary Retirement compensation included in salary and wages in F/A - Not included in cost A/c	50,25,000	
Add: Donation paid	75,000	51,33,600
		73,47,700
Less: Profit on Sale of Fixed Assets-Not considered in cost A/c	2,05,000	
Less: Receipts of insurance claim related to previous year	5,08,700	
Less: Profit from Retail trading activity	32,02,430	
Less: Interest income from inter-corporate deposit-not considered in cost	6,15,000	



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

accounts			
Less: Difference in valuation of stock:			
Decrease in inventories as per cost accounts	3,90,12,500		
Decrease in inventories as per financial accounts	(-) 3,82,06,430	8,06,070	<u>(-)53,37,200</u>
Profit as per Cost Accounts			20,10,500

(b) Explain the investigative techniques used in forensic accounting.

[7]

Answer:

There are several techniques for conducting a forensic review of the business. The ones provided below are generic but effective. These are the forensic techniques that apply to almost all companies. These are:

- **Reviewing Public Documents and Conducting Background Checks:**
The documents made available to the public are scrutinized as they are the easiest to obtain. Also, thorough background checks of a particular company are done to see the past dealings of the business. Public Documents would include any information in the public database, the corporate records, and any legally available information on the internet.
- **Conducting Detailed Interviews:**
Conducting an interview is an essential technique that can transform an unwilling person into a source of valuable information. It helps in fully understanding all the facts. An interview should be conducted by accurately assessing the gravity of the situation and preparing the questions according to it. Discussions should take every detail into account and look at the greater picture to figure out the magnitude of the illegal activity and the culprit responsible.
- **Gathering Information from Trustworthy Sources:**
Information provided by a confidential and trustworthy source can be precious to any case. When a piece of information is gained from a confidential source or a confidential informant, all the necessary precautions should be taken to hide the identity of the so-called cause. A forensic accountant should try to have as many confidential sources as possible because such sources can virtually guarantee a correct result.
- **Analysing Evidence Gathered:**
Proper analysis of the obtained evidence can point to the guilty party and assist in understanding the extent of the fraud committed in the business. Furthermore, this analysis would also help understand how secure the company is against financial scams and installing various austerity measures to prevent any such future situation.
- **Conducting Surveillance:**
This can be done physically or electronically and is one of the conventional measures to uncover any fraud. It can be done by monitoring and tracking all the official emails and messages.
- **Going Undercover:**
This is an extreme measure and should be used only as a last resort. It is best left to the professionals as they know how and where to conduct the investigations. Even a small mistake while being



COST AND MANAGEMENT AUDIT

undercover can signal the offender that something is wrong, and the person might vanish/disappear from the scene.

- **Analysing the Financial Statements:**

This is a special tool for finding out the fraud committed. All the necessary details are summarised in the financial statement, and the analysis of these statements can help a forensic accountant figure out the scam.

Nowadays, the economic conditions are getting stricter, and each country's government is now implementing tighter laws regarding the governance of the businesses. As the companies are increasing the level of sophistication, so is fraud. This has led to a higher sensitivity to fraud which can be interpreted as massive demand for the services of forensic accountants by all the businesses.

6. (a) **Discuss the functions of Financial Intelligent Unit-India (FIU-IND)** [7]

Answer:

The Government of India vide O.M. Dated 18.11.2004 set up the Financial Intelligence Unit (FIU-IND) as the national agency responsible for receiving, processing, analysing and disseminating information relating to suspect financial transactions.

Functions of FIU-IND

The main function of FIU-IND is to receive cash/suspicious transaction reports, analyse them and, as appropriate, disseminate valuable financial information to intelligence/enforcement agencies and regulatory authorities. The functions of FIU-IND are:

- **Collection of Information:** Act as the central reception point for receiving Cash Transaction reports (CTRs), Non-Profit Organisation Transaction Report (NTRs), Cross Border Wire Transfer Reports (CBWTRs), Reports on Purchase or Sale of Immovable Property (IPRs) and Suspicious Transaction Reports (STRs) from various reporting entities.
- **Analysis of Information:** Analyze received information in order to uncover patterns of transactions suggesting suspicion of money laundering and related crimes.
- **Sharing of Information:** Share information with national intelligence/law enforcement agencies, national regulatory authorities and foreign Financial Intelligence Units.
- **Act as Central Repository:** Establish and maintain national data base on the basis of reports received from reporting entities.
- **Coordination:** Coordinate and strengthen collection and sharing of financial intelligence through an effective national, regional and global network to combat money laundering and related crimes.
- **Research and Analysis:** Monitor and identify strategic key areas on money laundering trends, typologies and developments.

(b) **Identify the steps of Management Audit.** [7]

Answer:

Management reviews can be carried out for the area pre-planned or as directed from time to time. The steps of a management audit are:

- (i) Understanding of the objective and scope of the review. Select an area of operation of management.

**COST AND MANAGEMENT AUDIT**

- (ii) Collection of appropriate document and datum to establish the context and outcome.
Discuss and appraise management about gaps and recommendations with respect to mitigation.
Issuance of formal report.
- (iii) Determine whether the actual results meet the standards, norms, or targets. If not, why not?
 - (i) Is the target too difficult?
 - (ii) Is failure to achieve the target costing the organisation?
- (iv) Establish what is done to ensure the achievement of the norms, targets, and standards. What steps are taken for:
 - (i) Planning
 - (ii) Operations, execution, and implementation e.g., use of up-to-date technology
 - (iii) Measurement of performance and controls.
- (v) Carry out a detailed investigation, collect evidence as well as a document for audit findings.
- (vi) Report the findings of the audit and make recommendations.

7. (a) Explain the Reasons for Adopting ESG in Business Practices**[7]****Answer:**

The SEBI introduced the requirement of ESG reporting way back in 2012 and mandated that the top 100 listed companies by market capitalisation shall file a BRR.

This was later extended to top 500 listed companies by market capitalisation in 2015.

Further, in May 2021, SEBI introduced a new reporting requirements on ESG parameters under the Business Responsibility and Sustainability Report (BRSR) by amending regulation 34 (2) (f) of SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015, (LODR Regulations)

Reasons for Adopting ESG in Business Practices

- (i) **Improved brand recognitions and image**
The beneficial impact ESG practices may have on a company's reputation and brand image is one of the main advantage of implementing them.
- (ii) **Suitable for Investors**
Investors understand that business with sound ESG policies are better equipped to handle economic downturns and produce steady, long -term returns.
- (iii) **Improved Recruitment and retention of employees**
Employing ESG strategies can assist businesses in luring top talent, keeping them on Board, and creating a supportive workplace environment that values sustainability and social responsibility.
- (iv) **Enhanced operational effectiveness**
Prioritizing ESG issues in business operations can enhance supply chain management, waste reduction, and energy efficiency.
Lower operating expenses, lower risk, and better overall performance are possible outcomes of these measures.
- (v) **Government Regulations**



FINAL EXAMINATION
MODEL ANSWERS
PAPER – 17
COST AND MANAGEMENT AUDIT

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

Adopting ESG practices shall enable the organisations help earn reputation for being ethical and sustainable enterprises.

- (b) **Discuss the various managerial accounting tools which are used to serve different decision making purposes in an organization.** [7]

Answer:

An accounting tool is a data set that's collected and reported according to accepted accounting principles, accounting tools are many and varied. Perhaps the most commonly known tools are balance sheets and income statements, typically used to report the financial health of a business for banks, shareholders, investors etc.

Typical managerial accounting tools are:

- **Break-even analysis:** The break-even point is **the point at which total cost and total revenue are equal**, meaning there is no loss or gain.
- **Capital budgeting analysis:** an examination of proposals for acquiring fixed assets and related fund allocation with avenue of financing.
- **Constraint analysis:** a tool that examines the primary bottlenecks of a business and how these affect revenues and profits.
- **Inventory analysis:** useful for calculating cost of goods sold as well as placing a value on raw materials and unsold products.
- **Margin analysis:** a profit analysis typically built around revenue generated by a specific subset of data, such as customer, region, product, or business branch.
- **Transaction analysis:** tools that look at specific transactions, such as sales to a particular customer or purchase of certain goods.
- **Trend analysis:** tools that look at changes to data over time to permit examination of changes to business conditions, helpful for creating forecasts.

8. (a) **Explain the advantages of Audit Note book** [7]

Answer:

It is a tool used by auditors to record and organise their thoughts, observations, and key information during the course of an audit.

It is usually a bound book in which a large variety of matters observed during the course of audit are recorded.

Here are some advantages of creating Audit Note Book.

- **Personal Reference:** Serves as a personal reference for the auditor throughout the audit engagement. The note book allows auditor to keep track of their progress, priorities, and any other outstanding issues that may need attention.



COST AND MANAGEMENT AUDIT

- **Brain Storming and Idea Generation:** Offers a space to auditor to engage in brain storming sessions and generate ideas related to audit procedures. It encourages creativity and critical thinking.
- **Risk Identification:** Helps auditor to identify and document potential risks and control weaknesses as they are discovered.
- **Preparation of Audit Working Capital Files:** Information recorded in Audit Note Book can be used as a basis for creating more formalised Audit Working Paper Files.
- **Training and Knowledge Transfer:** If used as a part of training programme, the Audit Note Book can be a valuable resource for new auditors, allowing them to understand the thought process and methodology used by more experienced team members.

(b) Describe the special feature of Co-operative Society Audit.

[7]

Answer:

The special features of co-operative societies audit, to be borne in mind while conducting the audit are as follows:

- **Examination of overdue debts:** Overdue debts for a period from six months to five years and more than five years will have to be classified and shall have to be reported by an auditor. It affects its working capital position. They will have to be classified as good or bad. The auditor will have to ascertain whether proper provisions for doubtful debts is made and whether the same is satisfactory.
- **Overdue Interest:** Overdue interest should be excluded from interest outstanding and accrued due while calculating profit. Overdue interest is interest accrued or accruing in accounts, the amount of which the principal is overdue.
- **Certification of Bad Debts:** Bad debts and irrecoverable losses before being written off against Bad Debts Funds, Reserve Fund etc. should be certified as bad debts or irrecoverable losses by the auditor where the law so requires. Where no such requirement exists, the managing committee of the society must authorize the write-off.
- **Valuation of Assets and Liabilities:** The auditor will have to ascertain existence, ownership and valuation of assets. Fixed assets should be valued at cost less adequate provision for depreciation. The incidental expenses incurred in the acquisition and the installation expenses of assets should be properly capitalized. If the difference in the original cost of acquisition and the present market price is of far-reaching significance, a note regarding the present market value may be appended; so as to have a proper disclosure in the light of present inflationary conditions. The current assets be valued at cost or market price, whichever is lower. Regarding the liabilities, the auditor should see that all the known liabilities are brought into the account, and the contingent liabilities are stated by way of a note.
- **Adherence to Co-operative Principles:** The auditor will have to ascertain in general, how far the objects, for which the co-operative organisation is set up, have been achieved in the course of its working. While auditing the expenses, the auditor should see that they are economically incurred and there is no wastage of funds. Middlemen commissions are, as far as possible, avoided and the



COST AND MANAGEMENT AUDIT

purchases are made by the committee members directly from the wholesalers. The principles of propriety audit should be followed for the purpose.

- **Observations of the Provisions of the Act and Rules:** An auditor of a co-operative society is required to point out the infringement with the provisions of Co-operative Societies Act and Rules and bye-laws. The financial implications of such infringements should be properly assessed by the auditor and they should be reported. Some of the State Acts contain restrictions on payment of dividends, which should be noted by the auditor.
- **Verification of Members' Register and examination of their pass books:** Examination of entries in members, pass books regarding the loan given and its repayments, and confirmation of loan balances in person is very much important in a co-operative organisation to assure that the entries in the books of accounts are free from manipulation.
- **Special report to the Registrar:** During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society, he may report these special matters to the Registrar, drawing his specific attention such irregularities. The Registrar on receipt of such a special report may take necessary action against the society.
- **Audit classification of society:** After a judgment of an overall performance of the society, the auditor has to award a class to the society. This judgment is to be based on the criteria specified by the Registrar. It may be noted here that if the management of the society is not satisfied about the award of audit class. The auditor should be very careful, while making a decision about the class of society.