

**Paper-17 - COST AUDIT & OPERATIONAL AUDIT**

Time allowed-3hrs

Full Marks: 100

**SECTION I (50 Marks)**

**(Cost Audit)**

**Answer Question No. 1 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.**

**Working Notes should form part of the answer.**

**“Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates”**

**Question 1.**

**(a) Choose the most correct answer among four alternative statements : [8×1]**

- (i) The Cost Accounting Record Rules, 2011, is applicable to every company including a foreign company whose aggregate value of net worth as on the last date of the immediately preceding financial year exceeds:
- A. ₹ 5 crores;
  - B. ₹ 20 crores;
  - C. ₹ 10 crores;
  - D. ₹ 25 crores.
- (ii) The Compliance Report is to be submitted by companies to the Central Government within:
- A. Ninety days from the close of the company's financial year to which the compliance report relates;
  - B. Forty five days from the close of the company's financial year to which the compliance report relates;
  - C. One hundred and eighty days from the close of the company's financial year to which the compliance report relates;
  - D. One hundred and thirty five days from the close of the company's financial year to which the compliance report relates.
- (iii) CAS-13 deals with:
- A. Pollution Control Cost;
  - B. Cost of Service Cost Centre;
  - C. Cost of Utilities;
  - D. Repairs and Maintenance.
- (iv) Profit Reconciliation under Para 7 of the annexure to Cost Audit Report Rules, 2011 to be furnished for:
- A. Last year only;
  - B. Previous three years;
  - C. Current year and previous 2 years;
  - D. Current year and previous year.
- (v) The Cost Accounting Standard which deals with the principles and methods of classification, measurement and assignment of Direct Expenses, for determination of

the cost of product or service, and the presentation and disclosure in cost statements, is:

- A. CAS-6;
- B. CAS-10;
- C. CAS-11;
- D. CAS-9.

(vi) The Cost Audit and Assurance Standard which deals with Planning an Audit of Cost Statements, is:

- A. CAAS-101;
- B. CAAS-102;
- C. CAAS-103;
- D. CAAS-104.

(vii) Para 8 of the Annexure to Cost Audit Report Rules, 2011 deals with:

- A. Profit Reconciliation (for the company as a whole);
- B. Financial Position And Ratio Analysis (for the company as a whole);
- C. Related Party Transactions (for the company as a whole);
- D. Value Addition and Distribution of Earnings (for the company as a whole).

(viii) The ceilings on the number of cost audits in the case of an individual Cost Accountant, who is not in full time employment are:

- A. Ten companies, out of which not more than ten should have a paid-up share capital of ₹ 25 lakhs or more;
- B. Twenty companies, out of which not more than ten should have a paid-up share capital of ₹ 10 lakhs or more;
- C. Twenty companies, out of which not more than ten should have a paid-up share capital of ₹ 20 lakhs or more;
- D. Twenty companies, out of which not more than ten should have a paid-up share capital of ₹ 25 lakhs or more.

**(b) State with reasons whether the following statements are "True" or "False". [6×1]**

- (i) As per Cost Accounting Records Rules, 2011, Form-B is the form of Compliance Report and it includes Annexure to the Compliance Report.
- (ii) CAS-4 does not apply to proprietorship concern.
- (iii) As per Cost Accounting Standard, behaviour-wise costs are of three types — Material, Labour and Expenses.
- (iv) Cost Auditor of a company can be appointed as Internal Auditor of the same company.
- (v) Value addition is the difference between net sales and the cost of bought out materials and services.
- (vi) According to Cost Audit Report Rules, 2011, Form-II deals with Performance Appraisal Report.

**Question 2.**

**(a)** Purchase of Materials ₹ 3,00,000 (inclusive of Trade Discount ₹ 3,000); Fee on Board ₹ 12,000; Import Duty paid ₹ 15,000; Freight inward ₹ 20,000; Insurance paid for import by sea ₹ 10,000; Rebates allowed ₹ 4,000; Cash discount ₹ 3,000; CENVAT Credit refundable ₹ 7,000; Subsidy received from the Government for importation of these materials ₹ 20,000. Compute the landed cost of material (i.e. value of receipt of material). **[5]**

**(b)** Which persons cannot be appointed or reappointed as Cost Auditor of a company? **[6]**

**(c)** Whether the Cost Accounting Record Rules, 2011 are applicable to foreign companies?

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State with reason.

- (d) Give a comparison between Compliance Report and Cost Audit Report.

[2]

[5]

### Question 3.

- (a) Bina Ltd. requiring to make and maintain cost accounts and records contends that the Auditor need not report on the non-maintenance of cost records because the provisions of Cost Audit were not made applicable to it. How would you react to the above situation? [3]
- (b) Capacity utilization depends on various factors like hours, the plant worked, efficiency with which it worked, quality of input materials etc. In the context of this statement, please give your comments on the following data relating to a chemical plant and a sugar mill.

		For the year 2013-14	
		Budgeted	Actual
(i)	Chemical Plant:		
	Production (KL)	18,00,000	13,50,000
	Vessel occupancy	7,200	6,000
(ii)	Sugar Mill:	2013-14	2012-13
	Installed Capacity: Tonnes of cane crushing per day (TCD)	5,000	4,000
	Duration of the season (days)	240	250
	Cane crushed (MT)	10,20,000	8,00,000
	Sugar production (MT)	1,22,500	79,300

[8]

- (c) "Finance costs are those costs which are incurred by an enterprise in connection with the borrowing of funds" — State the principles of measurement of finance costs. [5]
- (d) Whether the Annexure to the Compliance Report is to be prepared by the company or by the Cost Accountant? [2]

### Question 4.

- (a) There are various types of Cost Audit available. Describe those types of Cost Audit on the basis of persons who direct it and on the basis of persons who conduct it. [6]
- (b) The Cost Account of a company has arrived at a profit of ₹ 73,24,150 based on cost accounting records for the Year ended 31.03.2014. As Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts (figures are in ₹)

Particulars	₹
(i) Profit on sale of fixed assets	63,000
(ii) Loss on sale of investments	11,200
(iii) Voluntary retirement compensation included in salaries & wages in Financial Accounts	16,75,000
(iv) Donation paid	25,000
(v) Profit from retail trading activity	7,12,300

You are required to calculate the profit as per financial books after reconcile between the profit figures as per Cost Accounts and Financial Accounts. [5]

- (c) "The Council of the Institute of Cost Accountants of India has constituted Cost Accounting

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Standards Board (CASB)." — State the Objectives and Functions of the Cost Accounting Standards Board in this regard. [5]

(d) Define Service Cost Centre according to CAS-13. [2]

### SECTION II (50 Marks) (Operational Audit)

**Answer Question No. 5 (carrying 14 marks) which is compulsory and Answer any two (carrying 18 marks each) from the rest in this Section.**

#### Question 5.

(a) State with reasons whether the following statements are "True" or "False". [6×1]

- (i) Compliance control is one of the major parts of internal control.
- (ii) Due Diligence Audit has been defined as an inspection, survey and analysis of energy flows in a building, process or system with the objective of instituting energy efficiency programs in an establishment.
- (iii) Management Audit Report is to be submitted to the Cost Audit Branch.
- (iv) One of the objectives of Environmental Audit is to make a social cost-benefit analysis.
- (v) The Audit Committee should meet at least twice in a year.
- (vi) Management Audit Programme is an essential prerequisite to conducting the Management Audit.

(b) Fill up the blanks: [8×1]

- (i) \_\_\_\_\_ Audit concentrates on seeking out aspects of operations in which waste, inefficiency and excessive costs would be subject to reduction by the introduction of improvement of operating controls.
- (ii) Valuation Audit u/s 14A of Central Excise Act can be ordered only with prior approval of \_\_\_\_\_ of Central Excise.
- (iii) The audit which ensures that adequate internal controls within banking organizations are supplemented by an effective internal audit function, which independently evaluates the control systems within the organization, is called \_\_\_\_\_ Audit.
- (iv) Dumping is an \_\_\_\_\_ trade practice.
- (v) The Director-General, head of the Secretariat of the WTO shall be appointed by the \_\_\_\_\_.
- (vi) The concept of Management Audit was developed by \_\_\_\_\_.
- (vii) \_\_\_\_\_ integrates all facets of the business, including planning, purchasing, manufacturing, sales and marketing etc., which are sometimes located at different geographic locations.
- (viii) The qualifications of a Statutory Auditor are prescribed under the provisions of section \_\_\_\_\_ of the Companies Act, 1956.

#### Question 6.

(a) You are the Internal Auditor of Arena Manufacturing Ltd. The Managing Director has asked you to enquire into the cause of abnormal wastage of raw materials during the month of April. The wastage percentages for the last few months are: Jan. — 1.3%, Feb. — 1.1%, Mar. — 1.3% and Apr. — 3.9%. How will you proceed to carry out the assignment? [6]

(b) Distinguish between Management Audit and Internal Audit. [6]

**(c)** From the following figures extracted from the accounting records, you are required to compute:

- (i) Value Added;
- (ii) Operating Profit;
- (iii) Ratio of Operating Profit to Net Sales; and
- (iv) Ratio of Operating Profit to Value Added.

	₹ lakhs
Net sales excluding excise duty	20,980
Increase in stock of finished goods	241
Expenses :	
Raw materials consumed	2,686
Packing materials consumed	1,196
Stores and spares consumed	560
Power and fuel	4,640
Repairs and maintenance	199
Insurance	117
Direct salaries and wages	480
Depreciation	880
Interest paid	1,390
Factory overheads :	
Salaries and wages	240
Others	220
Selling and distribution overheads :	
Salaries and wages	120
Additional sales tax	457
Others	1,673
Administration overheads:	
Salaries & Wages	120
Others	82

**[2+2+1+1]**

**Question 7.**

- (a)** "Management Audit is the unique process appraising the performance of directors, managers or in the other words, appraising the performance of the management." — List out the uses of management Audit in this context. **[3]**
- (b)** How can an internal control system with regard to sales return and purchase return be designed? **[7]**
- (c)** State the roles of stakeholders in Corporate Governance. **[4]**
- (d)** "Environmental Audit is nowadays absolutely necessary for the survival of the industry and the economy to serve the best interest of the society at large." — State the objectives of the Environmental Audit in this regard. **[4]**

**Question 8.**

**Write a short note on any three out of the following:**

**[6×3=18]**

- (a)** Excise Audit 2000 (EA-2000);
- (b)** Ratios used in measuring productive efficiency of the resources deployed and utilized in the context of Productivity Audit;
- (c)** Corporate Services Audit;
- (d)** Audit checks — Inventory Control Function.