

# FINAL EXAMINATION

June 2023

P-19(CMAD)  
Syllabus 2016

## COST AND MANAGEMENT AUDIT

Time Allowed: 3 hours

Full Marks: 100

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

*Both Sections are compulsory. Each Section contains instructions regarding the number of questions to be answered within the Section.*

*All working notes must form part of the answer.*

*Wherever necessary, candidates may make appropriate assumptions and clearly state them in answer.*

### SECTION - A (20 Marks)

Section A contains Question Number 1.

All parts of this question are compulsory.

1. Choose the correct option from amongst the four alternatives given (1 mark is for the correct choice and 1 mark is for the justification/working) 2×10=20
  - (i) As per the Companies (Cost Records and Audit) Rules, 2014, every Cost Auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in which Form?
    - (A) CRA - 1
    - (B) CRA - 2
    - (C) CRA - 3
    - (D) CRA - 4
  - (ii) CAS -13 deals with:
    - (A) Cost of Service Cost Centre
    - (B) Pollution Control Cost
    - (C) Administrative Overheads
    - (D) Employee Cost

- (iii) Which audit is generally defined as the audit of data or information depicting social performance of a business in contrast to its normal economic performance as measured in financial audit?
- (A) Social Audit (CSR)
  - (B) Corporate Services Audit
  - (C) Propriety Audit
  - (D) Corporate Development Audit
- (iv) A Cotton Textile Mill had cumulative waste percentage of 9% in Blow Room, 7% in Carding, 5% in Drawing, 5% in Simplex and 10% in Ring Frame. For an input of 1,000 kg of Cotton in Blow Room, the output at Ring Frame is:
- (A) 687.41 kgs.
  - (B) 786.41 kgs.
  - (C) 654.39 kgs.
  - (D) 564.39 kgs.
- (v) Every Company under The Companies Cost Records and Audit Rules, 2014 (CCRA) shall maintain cost records of its products or activities as to facilitate calculation per
- (A) Unit cost of production
  - (B) Unit cost of operations
  - (C) Unit cost of sales and margin
  - (D) Either of (A), (B), or (C)
- (vi) The financial data in (₹ Lakh) of a manufacturing unit during FY 22-23 were : financial data ( ₹ in lakh ): Net Sales 2,200, Export Incentives 105, Other income 180, Adj. of Finished Stock (+) 115, Materials 925, Salaries 1110, Overheads 220, Tax 25.6. The Value Added as per Rules (₹ Lakh) will be
- (A) 1280
  - (B) 1450
  - (C) 1495
  - (D) 1530
- (vii) There are no fixed items of evidence to be checked by Management Auditor. A Management Auditor has to rely more on \_\_\_\_\_ .
- (A) his experience and acumen
  - (B) observations of Internal/Statutory Auditors
  - (C) Physical Verification Sheet
  - (D) data available from Management

- (viii) Penalty paid to PF authorities is \_\_\_\_\_ in Employee Cost.
- (A) included
  - (B) excluded
  - (C) based on Individual cases
  - (D) partly included
- (ix) CAS 11 deals with \_\_\_\_\_.
- (A) Administrative Overhead
  - (B) Factory Overhead
  - (C) Selling & Distribution Overhead
  - (D) Financial Cost
- (x) Which one of the following is an example of a 'Profitability Ratio' in relation to Sales Turnover?
- (A) Inventory Turnover Ratio
  - (B) Proprietary Ratio
  - (C) Expenses Ratio
  - (D) Capital Gearing Ratio

**Section B (80 Marks)**

Answer *any five* questions from Question Number 2 to 8.

Each question carries 16 Marks.

2. (a) What are the general objectives of Cost Audit? In the light of the same mention what Cost Auditor does while undertaking Cost Audit. 8
- (b) Enumerate the various omissions that might arise in rendering audit services to its Clients by a Cost Accountant in practice which can make him guilty of Professional Misconduct as laid down in Second schedule of CWA Act, 1959. 8
3. (a) What are the principles of measurement, to be followed for Depreciation and Amortisation, as per Cost Accounting Standard – 16? 8
- (b) The profit as per financial accounts of AB Ltd., for the year 2022-23 was ₹ 1,54,72,260. The profit as per Cost Accounting Records for the same period was different. You are required to prepare a reconciliation statement and arrive at the profit as per Cost Accounts. The following details are collected from the financial accounting schedules and cost accounting records: 8

PARTICULARS	Financial Accounts ₹	Cost Accounts ₹
Value of Stock:		
Opening – Work in Progress	28,42,510	24,35,270
Finished Goods	2,84,37,420	2,97,15,390
Closing – Work in Progress	42,27,365	38,34,435
Finished Goods	3,76,15,400	4,25,42,840
Interest income from inter-corporate deposits	6,25,520	
Donations given	4,65,350	
Loss on sale of Fixed Assets	1,03,158	
Value of Cement taken for own consumption	3,65,930	3,50,300
Cost of power drawn from own wind-mill:		
– At EB tariff		47,85,400
– At Cost	32,15,340	

4. (a) What is meant by Management Audit Programme (MAP)? Which factors should be considered for framing an efficient Management Audit Programme? 8
- (b) What is Personnel Management? Discuss about the functional areas of Personnel Management along with scope of Human Resources Management. 8
5. (a) Write a short note on Internal Audit Procedure and explain about Audit Note Book. 8
- (b) What are the important points to be considered for conducting an Audit of a Hospital? 8
6. (a) The Balance Sheet of M.H.Ltd., for the last two years stood as follows:

(Amount in ₹ lakhs)

PARTICULARS	31.03.2023	31.03.2022
Sources of Fund:		
Share Capital (Share of ₹ 10 each)	3,500	3,500
Reserves and Surplus	1,932	1,400
Loans	1,400	1,840
Total	6,832	6,740
Application of Fund:		
Fixed Assets	4,500	3,800
Less: Depreciation	1,320	1,080

Net Assets	3,180	2,720
Investment	1,220	1,140
(A)	4,400	3,860
Net Current Assets:		
Current Assets:		
Stock	1,380	1,260
Debtors	930	610
Cash and Bank	330	310
Other Current Assets	360	360
	3,000	2,540
Less: Current Liabilities	1,328	450
(B)	1,672	2,090
Miscellaneous Expenditure (C)	760	790
Total (A+B+C)	6,832	6,740

You are given the following additional information for the year 2022-23:

(Amount in ₹ lakhs)

Sales	7,500
Profit before Interest and Tax	1,750
Interest	368
Provision for Tax	690
Proposed Dividend	650

You are required to calculate for the year 2022-23:

- Return on Capital Employed
- Stock Turnover Ratio
- Return on Net-worth
- Current Ratio
- Proprietary Ratio

8

6. (b) AP Ltd., has a captive power generation plant for its cement factory. The following information is available with regard to the power generation for the year ended on 31st March, 2023.

Coal Consumption	2,500 tonnes at ₹650 per tonne
Oil	3,100 tonnes at ₹51.50 per tonne
Water	25,000 gallons at ₹62 per gallon
Stores and other consumables	₹ 65,000

Salaries of Power generating Plant:

2 Supervisors each at ₹ 10,000 per month

5 Skilled Workers each at ₹ 6,500 per month

3 helpers each at ₹ 4,500 per month

Salaries to boiler house attendant – 8 Workers each at ₹ 5,200 per month

Cost of power generating plant – ₹ 18,00,000 having life of plant 15 years with ₹ 80,000 residual value

Cost of boiler plant – ₹ 6,00,000 having life of plant 10 years with no residual value.

Miscellaneous income received by Sale of Ash – ₹ 80,000

Repairs and Maintenance – Power generating Plant ₹ 2,00,000

Boiler house – ₹ 1,36,000.

Share of Administrative overhead – ₹ 1,85,000

Power generated during the year 30,42,500 KWH

Note: No power generated is used by the power generating plant itself.

You are required to prepare the Cost Sheet to calculate cost per KWH of electricity generated as per the Companies (Cost Records and Audit) Rules, 2014 for the year ended 31st March, 2023.

8

7. (a) The following figures are obtained from the Cost Accounting Records of M Ltd., a single product manufacturing company:

	FY 22-23	FY 21-22
	Amount (₹ 000)	
Net Sales	9,610	7,700
Other Income	610	400
Export Incentive	108	80
Increase in Value of Finished Goods	40	20
Raw Material consumed	3,560	2,920
Direct Wages, salaries, bonus etc	890	710
Power & Fuel	490	390
Stores & spares	325	280
Other manufacturing overheads	870	750
Administrative Overheads		
Audit Fees	70	60
Salaries & Commission to Directors	100	80
Other Overheads	520	450

Selling & Distribution Overheads		
Salaries & Wages	72	60
Packing & Forwarding	40	35
Other Overheads	505	405
Total Depreciation	245	245
Interest Charges:		
On Working Capital Loans	120	100
On Term loans from IDBI	185	142
On Debentures	60	60
Tax paid including provisions	640	405
Dividend paid	1,000	550

You are required to calculate the following parameters as stipulated PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2023 and 2022:

- Value Added
- Earnings available for Distribution
- Earnings distribution

8

(b) The following are Operating Results for the year 31-3-2023 of a Company :

(figs in ₹ Lakh)

Sales		13,540
Cost of Sales: Raw Materials, Stores, Spares	5,600	
Excise Duty	830	
Salaries, Wages	1,400	
Power and Fuel	470	
Repairs: Major Breakdown	35	
Regular Maintenance	94	
Selling and Distribution Cost	1,040	
Insurance	56	
Rent, Rates and Taxes	97	
Printing, Stationery, etc.	437	
Traveling	776	
Other Administrative expenses	426	
Depreciation	391	
Interest	1,494	
Total expenses		13,146
Profit		394

There was a major breakdown of machinery, resulting in a loss of production for 42 days in June and July 2022 and there was a Labour strike of 97 days from 14.02.2023 to 21.05.2023. No Salaries/wages were paid during strike period. The company produced a single product (Steel-Billet) and the production during the year was 9,42,000 kgs. You are required to compute the amount of abnormal cost on account of the breakdown and strike and the impact on cost per unit of output. Where, do these figures find a place in the Cost Audit Report? 8

8. Answer any four out of the following five questions:

4×4=16

- (a) Explain Audit Risk as per Cost Auditing Standard -103.
- (b) Write Short Notes on Structure of Internal Control.
- (c) Write a short note on Manpower Analysis.
- (d) RST Ltd., has received an enquiry for supply of 3,00,000 special type of machine parts. Capacity exists for manufacture of the machine parts.

The costs estimated are as follows:

Raw Material – 30,000 kg at ₹ 3.50 per kg.

Labour hours – 12,000 hours of which 1,800 would be overtime hours payable at double the labour rate.

Labour Rate – ₹ 4 per hour

Factory Overheads – ₹ 4.50 per direct labour hour

Selling and Distribution Overheads – ₹ 42,000

Materials recovered at the end of the operation will be ₹ 12,000 (estimated)

You are the Management Accountant of the Company. The Managing Director requests you to prepare Cost Statement.

e) The following figures relate to WS Ltd.:

PARTICULARS	31.03.2023
Gross Profit (%)	25
Average Stock (₹)	40,000
Stock Turnover (times)	25
Income tax rate (%)	30
Post-tax Income as % of Sales	9

You are required to work out Profit before Tax for the year 2022-2023 from the above.

**SUGGESTED ANSWERS TO QUESTIONS**  
**SECTION – A**

**1.**

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

**SECTION – B**

**2. (a)**

Cost Audit has both general and social objectives. The general objectives can be described to include the following:

- To verify cost accounts with a view to ascertaining that these have been properly maintained and compiled according to the cost accounting system followed by the enterprise.
- To ensure that the prescribed procedures of cost accounting records rules are duly adhered to
- To detect errors and fraud in the company's activities
- To verify the cost of each 'cost unit' and 'cost center' to ensure that these have been properly ascertained
- To determine inventory valuation
- To facilitate fixation of prices of goods and services
- To periodically reconcile between cost accounts and financial accounts
- To ensure optimum utilization of human, physical and financial resources of the enterprise
- To detect and make correction of abnormal loss of material and time
- To inculcate cost consciousness
- To advise management, on the basis of inter-firm comparison of cost records, as regards the areas where performance calls for improvement
- To promote corporate governance through various operational disclosures to the directors.

**Objectives of Audit and Management Outlook:**

The cost auditor should understand whether the audit is meant only for meeting with statutory requirements or the management does have any other expectations or outcomes in its mind from the cost audit, such as

- (i) cost optimization or cost reduction
- (ii) checking parameters of operational efficiency of a unit or any utility or any other function or department
- (iii) suggesting product diversification or changed product-mix
- (iv) identifying profit making or loss making products
- (v) suggesting changed marketing strategies; market expansion; market diversification
- (vi) complete review of business strategies

## **2. (b)**

Part I of the Second Schedule of the CWA Act, 1959 relevant to sec. 21 and 22 lists out the acts of professional misconduct in relation to Cost Accountants in Practice. Some of such acts are negligence on the part of the Cost Accountant in Practice to adhere to the fundamental duty to the client. The specific omissions are mentioned below:

- (1) fails to report a material mis-statement known to him to appear in a cost or pricing statement with which he is concerned in a professional capacity;
- (2) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
- (3) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
- (4) fails to invite attention to any material departure from the generally accepted procedure of costing and pricing applicable to the circumstances;
- (5) fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

## **3. (a)**

### Principles of Measurement for Depreciation and Amortisation (CAS 16):

Depreciation and Amortisation shall be measured based on the depreciable amount and the useful life.

The residual value of an intangible asset shall be assumed to be zero unless:

There is a commitment by a third party to purchase the asset at the end of its useful life; or

There is an active market for the asset and:

Residual value can be determined by reference to that market; and

It is probable that such a market will exist at the end of the asset's useful life.

The residual value of a property, plant and equipment shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.

The minimum amount of depreciation to be provided shall not be less than the amount calculated as per principles and methods as prescribed by any law or regulations applicable to the entity and followed by it.

In case of regulated industry, the amount of depreciation shall be the same as prescribed by the concerned regulator.

While estimating the useful life of a depreciable asset, consideration shall be given to the following factors:

Expected physical wear and tear;

Obsolescence; and

Legal or other limits on the use of the asset.

The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.

If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only, if there is evidence to support renewal by the entity without significant cost. The useful life of a re-acquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.

The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

An asset which is used only when the need arises but is always held ready for use.

Example: Fire extinguisher, stand by generator, safety equipment shall be considered to be an asset available for use.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) or the date that the asset is de-recognised.

Depreciation of any addition or extension to an existing depreciable asset which becomes an integral part of that asset shall be based on the remaining useful life of that asset.

Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.

The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.

Impairment loss on assets shall be excluded from cost of production.

The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

An entity can use any of the methods of depreciation to assign depreciable amount of an asset on systematic basis over its useful life.

For example: Straight-line method, Diminishing balance method and Units of production method.

The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits are expected to be consumed by the entity.

The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.

Items such as spare parts, stand-by equipment and a servicing equipment are recognised as property, plant and Equipment when they meet the definition of Property, Plant and Equipment and depreciated accordingly. Otherwise, such items are classified as Inventory and recognised in cost as and when they are consumed.

Cost of small assets shall be written off in the period in which they were purchased as per the accounting policy of the entity.

Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.

Where depreciation for an addition of an asset is measured on the basis of the number of days for which the asset was used for the preparation and presentation of financial statements, depreciation of the asset for assigning to cost of object shall be measured in relation to the period, the asset actually utilized.

### **3. (b)**

Profit as per Cost Accounts ₹ 174,93,338

### **4. (a)**

Management audit programme is an essential prerequisite to conducting the audit. It is a plan of action drawn in advance of taking up the audit, and to help the auditor to cover the entire area of his function thoroughly. He should lay down for himself a proper procedure to be followed to complete the work in time, giving thorough coverage to all aspects.

In order to frame an efficient management audit programme, the following factors should be considered:

- (i) Review of the organisational objectives and plans
- (ii) Study of the policies and practices of the management
- (iii) A critical review of the organizational structure
- (iv) Study of the systems and procedures
- (v) Evaluation of operations
- (vi) Study of the efficiency of the use of physical resources available
- (vii) Exercise of proper management control
- (viii) Maintain suitable monitoring system through management information system (MIS)
- (ix) Check on adherence to the statutory obligation and
- (x) Above all, review the efficiency of manpower handling, which ultimately results in the organization's success.

An audit programme is laying down the path in its required details before conducting such audit. A management auditor shall shrewdly assess weak and risk areas in the organisation and deal with such areas in more detail. He has to lay down a programme by making a list of such weak and risk areas and follow them up in his audit.

#### 4. (b)

**Personnel Management** is that part of the management function which is primarily concerned with the human relationships within an organization. Its objective is essentially the maintenance of those relationships, which enable all those engaged in the undertaking to make their maximum personal contribution to the effective working of that undertaking. Therefore, personnel management is concerned with managing people at work. It is essentially one of development of efficient, loyal and hard-working employees. Personnel management is concerned with helping the employees to develop their potentialities and capacities to the maximum possible extent.

The functional areas of Personnel Management along with the scope of human resources management are indicated below:

(i) **Organization review and analysis:**

Continuous review and analysis of organization's operation may be necessary in order to determine and develop appropriate work structure, roles and responsibilities, inter and intra-department relationship, and levels of authority.

(ii) **Manpower, planning, recruitment and selection:**

Forecasting and planning is essential to needs of an organization for a sufficient number of qualified personnel for manning its operations.

(iii) **Manpower training and development:**

Appropriate methods and techniques of training and development may be adopted. Proper facilities and opportunities are to be provided for personnel to enable them to acquire necessary skills and knowledge to perform the jobs for which they are employed.

(iv) **Performance appraisal:**

There should be proper measuring, rating and evaluation of performance of personnel, guiding employee development and promoting motivation, communication and equity.

(v) **Employee remuneration:**

This function includes developing and administering appropriate system of remuneration including job evaluation, wage and salary structure, incentive payments, fringe benefits and non-financial rewards.

(vi) **Employee services:**

There should be satisfactory services relating to the safety, health and welfare of all employees, including social security plans and community development programmes.

(vii) **Administration and records:**

This includes designing, implementing and controlling of adequate records and administrative procedures to provide useful and pertinent information for planning purposes and for the documentation for all personnel in service.

(viii) **Industrial relations:**

It includes establishing appropriate procedures for the resolution for personnel and institutional differences by means of appropriate measures and machinery, e.g., standing orders, grievance procedures, conciliation, collective bargaining, and joint consultation.

(ix) **Auditing and research in manpower management:**

These are the responsibilities of personnel management, which call for the attention of a management auditor.

**5. (a)**

**INTERNAL AUDIT PROCEDURE**

- Proposal from Company & Acceptance from Internal Auditor
- Fixation of area / scope of the Internal Audit assignment and remuneration duly approved by the Board / Audit Committee
- Preparation of Internal Audit Plan & Strategy
- Execution of Internal Audit Plan & Strategy
- Escalate the matter of unnecessary interference in the Internal Audit work and non- co-operation by the Auditee's staff
- Preparation of Preliminary Report with observation, findings, recommendation of Internal Auditor
- Internal Auditor should report significant observations, suggestions / recommendation based on the policies, processes, risk, control and transactions processing
- Management Comments and Action Taken Report
- Submission of Final Report for the consideration of the Audit Committee / Board of Director / Managing Director

**Audit Note Book**

It is chronological record of examination of various transactions in course of audit. The omissions/errors are recorded and the treatment along with observations are noted. This acts as a safeguard of the Auditors to show that the transaction was duly scrutinised and the logical reasoning for disposal of the item was in the attention of the Auditor.

**5. (b)**

**Audit of Hospitals:**

The points stated below are to be considered for conducting an audit of a hospital.

- i. Check the letter of appointment to ascertain the scope of responsibilities.
- ii. Study the Charter or Trust Deed under which the hospital has been set up and take special note of the provisions affecting the accounts.
- iii. Examine, evaluate, and verify the system of internal check and internal control and determine the nature, timing, and extent of the audit procedures.
- iv. Vouch for the entries in the Patient's Bill Register with the copies of the bills issued. Test check the selected bills to see that these have been correctly prepared to take into consideration the period of stay of each patient as recorded in the Attendance schedule.
- v. Vouch for the collection from patients with copies of the bills and entries in the Bills Register. Arrears of dues should be properly carried forward. Where these are deemed to be irrecoverable, these are written off under due authorizations.
- vi. Interest and /or dividend income should be vouched concerning the Investment Register and the interest/ dividend warrants.

- vii. In case of legacies and donations which are received for specific purposes, it should be ensured that any income therefrom is not utilized for any other purposes.
- viii. Where receipts of subscriptions show significant deviations from the budgeted figures, these should be thoroughly inquired into and the matter should be brought to the notice of the trustees or the Managing Committee.
- ix. Government grants or grants from local bodies should be verified concerning the correspondence with the concerned authorities.
- x. Clear distinction should be made between the capital and revenue items.
- xi. The capital expenditure should be incurred under the proper authorization of a valid resolution of the trustees or the Managing Committee.
- xii. Verify the system of the internal check as regards purchases and issues of stores, medicine, etc.
- xiii. Examine that the appointment of the staff, payment of salaries, etc., are duly-authorized.
- xiv. Physically verify the investments, fixed assets, and inventories.
- xv. Check that adequate depreciation has been provided on all the depreciable assets.

**6. (a)**

- (i) Return on Capital Employed = 21.94%
- (ii) Stock Turnover Ratio = 5.68 times
- (iii) Return on Net-worth = 24.14%
- (iv) Current Ratio = 2.26 times
- (v) Proprietary Ratio = 63.14%

**6. (b)**

- Total cost of power generated ₹ 53,06,517
- Cost per KWH of electricity generated ₹ 1.74

**7. (a)**

Annexure to Cost Audit Report

Part D-3- Value Addition and Distribution of Earnings for M Ltd.

	<b>Particulars</b>	<b>FY 22-23</b>	<b>FY 21-22</b>
(i)	Value Added	3,258	2,410
(ii)	Earnings available for distribution	3,868	2,810
(iii)	Distribution of earnings to:		
	Employees as salaries and wages, bonus etc.	962	770
	Directors- Salaries and Commission	100	80
	Shareholders as Dividend	1,000	550
	Company as retained funds (including Depreciation)	921	803
	Government as taxes	640	405
	Providers of Capital/Fund as Interest on Debentures	60	60
	Interest on Term loan from IDBI	185	142

**7. (b)**

- Amount of Abnormal Cost (₹ in lakh) = 768
- Impact on Cost per Unit ₹ 81.51
- In the Cost Accounting Policy declared in Annexure to Cost Audit Report "A", the treatment of abnormal or non-recurring costs has to be declared.

### 8. (a)

#### Audit Risk (CAS 103):

Audit Risk is the risk that the cost auditor expresses an in-appropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.

- The risk of material misstatement has two components. viz. Inherent Risk and Control risk.
  - (i) Inherent Risk: the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
  - (ii) Control Risk: the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.
- Detection Risk: The risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

### 8. (b)

#### Structure of Internal Control:

There is no uniform or identical structure of internal control in all the organizations. It often varies in concept and applications, having regard to the following factors:

- (a) Type of business
- (b) Magnitude of the business
- (c) Infrastructure available in the organization
- (d) Potentiality of the human resources and their outlook

### 8. (c)

The depth of **analysis of manpower** could depend upon the proportion of manpower cost to the total cost of a product or service. The performance criteria for this area will mainly be related to the costs and efficiency or productivity.

The costs may be categorized into the cost of recruitment, the cost of maintaining the manpower, and the cost of separations. Recruitment costs may include position advertisements, commission paid to recruitment agencies, participation in job fairs or campus recruitment, etc. The maintenance costs may be the training & development costs, facilities provided over & above the monetary benefits, etc. The separation costs would mostly be implicit. These costs as a percentage of the total salaries and wages would provide an insight into the quality of manpower management. These costs could be further broken up as per the hierarchies of people. The time taken to recruit important positions may affect performance adversely.

The factor returns from the manpower in terms of growth in production and productivity, enhancement of skills, and knowledge of the organization. The auditor should analyze the figures for manpower productivity, idle time, overtime worked, absenteeism, etc. These factors could be compared with the respective outputs such as increased production, increased sales, etc. The criteria such as sales per person achieved, production per man hour, etc. will add value to the Report on Performance Analysis.

### 8. (d)

Total Cost ₹ 2,44,200

### 8. (e)

Profit before Tax ₹ 1,71,429