

**PAPER – 17**

**COST AUDIT & OPERATIONAL AUDIT**

**TEST PAPER – IV/17/COA/2008/T-2**

Time Allowed: 3 Hours

Full Marks: 100

**Answer Q.No.1 and any five Questions from the rest**

**1. (a)** State whether the following statements are “True” or “False”. No reason or explanation need be given :

- (i) Cost Audit is a type of efficiency audit and not a propriety audit.
- (ii) The liberalization of the economy has diminished the utility of Cost Audit.
- (iii) The formation of Audit Committee is a big leap in ensuring better corporate governance.
- (iv) India is the first country in the world in introducing the provisions of compulsory maintenance of the Cost Accounting records.
- (v) The Cost Auditor cannot be the Internal Auditor of a Company for the period for which he is conducting the Cost Audit.
- (vi) The Annexure to the Cost Audit Report (paras 1 to 28) is to be prepared by the Cost Auditor.
- (vii) The Cost Auditor is appointed in the Annual General meeting of the Company.
- (viii) The Proforma (product cost sheet) attached to the Cost Audit Report should be prepared separately for sale to any related party.
- (ix) Non-moving stock of raw materials and components are those stocks which have not moved for more than 24 months.
- (x) The Cost Auditor is a member of the Audit Committee of the Company.

**(b)** State with reasons whether the following activities amount to professional misconduct:

- (i) A Cost Accountant takes voluntary retirement from his employer and starts practice. He continues his association with his previous employer as an advisor, on a monthly retainer basis.
- (ii) A Cost Accountant gives a certificate of cost for a product manufactured by a SSI unit, owned by his son.

- (iii) A Practicing Lawyer specializing in 'Anti-dumping cases' comes to an informal understanding with a practicing Cost Accountant to assist him in preparing accounting statements to support his cases and agrees to share his fees on a percentage basis.
- (iv) A Practicing Cost Accountant accepts an assignment previously held by another Cost Accountant in practice, after due communication with him in writing.
- (v) Shares information acquired in course of his professional engagement to any person, other than the client so engaging him.

2. (a) Define the following (one/two sentences only):

- (i) Green Room Meetings,
- (ii) Sun Set Clause,
- (iii) Trade Facilitation,
- (iv) Social Audit,
- (v) Authentication.

(b) Fill in the blanks:

- (i) \_\_\_\_\_ is the highest decision-making body at the WTO, which meets at least once in every two years.
- (ii) The authority for approving the appointment of Cost Auditor is \_\_\_\_\_.
- (iii) The Cost Auditor has to submit his report to the Central Government within \_\_\_\_\_ days from the close of the financial year of the company.
- (iv) As per section 292A of the Companies (Amendment) Act, 2000, every Public Company having paid up capital of not less than \_\_\_\_\_ of rupees shall constitute a Committee of the Board known as "Audit Committee".
- (v) \_\_\_\_\_ is needed to create a corporate culture of transparency.

(iv) State merely whether the following statements are 'True' or 'False'. You need not give any reason/explanation for your answer:

- (i) 'Working Paper File' refers to papers, relating to matters, which do not normally change every year.
- (ii) The Cost Auditor has same powers, as Financial Auditor has, under section 227(1) of the Companies Act. Cont'd.....3

- (iii) As per CARR, 2001, the Annexure to Cost Audit Report is to be compiled by the Cost Auditor.
  - (iv) "Small Scale Units" are exempted from the purview of the Cost Accounting Record Rules.
3. (a) State the 'Records' which are considered as part of the Cost Accounting under Sec. 209(1)
- (b) What review should be made by a Cost Auditor of Cost Accounting Records?
4. From the following figures extracted from the financial and cost accounting records, you are required to compute :
- (i) Value added;
  - (ii) Ratio of Operating Profit to Net Sales; and
  - (iii) Ratio of Operating Profit to Value added

	Rs. in lakhs
Net Sales excluding Excise Duty	21,000
Increase in Stock of finished goods	250
Expenses :	
Raw Materials consumed	2,600
Packing materials consumed	1,200
Stores and Spares consumed	560
Power and Fuel	4,600
Repairs and Maintenances	200
Insurance	120
Direct Salaries and Wages	480
Depreciation	885
Interest paid	1,398
Factory Overheads:	
Salaries and Wages	240
Others	250
Selling and Distribution Overheads:	
Salaries and Wages	120
Additional Sales Tax	457
Others	1,700
Administration Overheads:	
Salaries and Wages	120
Others	80

- (a) What details likely required to be provided in Reconciliation of Turnover under Para 27 of Cost Audit Report Rules, 2001?

5. Write short notes :-

- (a) Energy Audit;
- (b) Audit Committee;
- (c) Industrial Sickness;
- (d) Management Frauds.

6. A company manufacturing a single product has an installed capacity of 2.5 lakhs M.T. During the year 2007-08 the capacity utilization was 100% and the cost details were as under :-

Unit variable costs were Rs.915 per M.T. as detailed below :

	Rs./T
Raw materials	600
Labour	150
Power (Variable)	65
Consumable	20
Packing	<u>80</u>
	<u>915</u>
Fixed costs for the year were:	Rs. lakhs
Overheads	120
Depreciation	100
Power (MD Charges)	3.375

During the year 2008-09 the production was only 1.25 lakhs MT due to lower demand in the market. During this year the variable costs escalated by 7% but there was no change in the total Fixed Costs.

Calculate the Total Cost per MT of the Product in 2008-09. What will be the abnormal costs and how would this be reported in the Cost Audit Report?

7. The cost of production of goods cleared for captive consumption should be certified only by a practicing Cost Accountant. Briefly explain the statutory requirements for this certification under the Central Excise Rules.

8. What is the scope of work for Cost Accountant in practice as a loss assessor? Give an illustrative list of the types of claims and the role of the Cost Accountant in assessing the quantum of loss.