

PAPER – 17

COST AUDIT & OPERATIONAL AUDIT

TEST PAPER – IV/17/COA/2008/T-1

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 reasons or explanation need be given:

- (i) Goodwill included in Fixed Assets is to be excluded in computing Capital Employed.
 - (ii) A default in payments to financial institutions is a subject matter of comment by the Cost Auditor in his report.
 - (iii) Royalty paid by a cement company for raising limestone is to be excluded from the cost of raw material.
 - (iv) Acceptance of fees by a practicing Cost Accountant for certifying certain statements for a lawyer contesting a customs case as a percentage of the duty relief amounts to professional misconduct.
 - (v) According to Cost Accounting Record Rules, inter-divisional transfer of intermediate products should be affected at market price.
 - (vi) Under the existing regulations, a Cost Accountant in practice, who is also a Chartered Accountant can also practice as a Chartered Accountant.
 - (vii) The Cost Auditor is a member of the Audit Committee of the company.
 - (viii) Managing Director’s remuneration paid as a percentage of profit is includible under the head Salaries & Wages in Cost of Production.
 - (ix) A large scale footwear unit in the Co-operative sector is not statutorily required to maintain Cost Accounting Records under section 209(1)(d) of the Companies Act.
 - (x) Valuation of inventory in para 19A of the Annexure to the Cost Audit Report should be as on the last date of the financial year under audit.
- (b) Which of the following is correct?
- (i) A cost auditor at a time can function as an auditor of how many companies of which all the companies paid up capital is more than Rs.25 lakhs?

- (2) 25 companies
 - (3) 20 companies
 - (4) 10 companies
- (ii) A Cost Audit Firm has three partners. State how many companies cost audit can be conducted where the paid up capital of all the companies is less than Rs.25 lakhs?
- (1) 30 companies
 - (2) 60 companies
 - (3) 15 companies
- (iii) A Tea Company has twelve gardens located at different places and regarded as separate unit. How many maximum number of Firm can be appointed?
- (1) Two firms as Joint auditors
 - (2) Twelve Firms as Joint auditors
 - (3) One Firm for twelve gardens
- (iv) Excisable clearances means
- (1) Only sale of goods from factory
 - (2) Total clearances from factory
 - (3) Despatches from bonded warehouse
- (v) Appointment of Cost Auditor should be sent to the Ministry of Corporate Affairs within
- (1) 30 days of the commencement of every year
 - (2) 50 days of the commencement of every year
 - (3) 45 days of the commencement of every year
- (a) State/Define the following (one/two sentences only):
- (i) A Cost Accountant in practice has accepted as the concurrent auditor of a company for a particular year. Can the Cost Accountant accept appointment as Cost Auditor of the same company for that year?
 - (ii) Under para 6 of the annexure to the Cost Audit Report, Break up of Cost of Input materials imported during the year under audit –
Details should be furnished in respect of major input materials each consisting at least 2% or 3% of the total material cost. Write the correct percentage.
 - (iii) 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”. – Fill up the gap.

2. In the course of cost audit of a company, you come across the following discrepancies:

	As per Cost Acctg. Record	As per Financial Accounts/Annual Reports	As per internal MIS Reports
Production (MT)			
Good quality	124725	125966	124900
Seconds	1241	--	1250
Depreciation (Rs. lakhs)	81.07 (For actual no. of days worked)	124.00 (For the whole year)	75.70 (As per standards)
Power generated (KWH)	28686750	28372415	28370165
Norms of Consumption of power			225 KWH/T of production

How will you deal with the above discrepancies in the cost Audit Report?

3. Your company has received an order from the Government of India directing your company to have the Cost Accounting Records audited. List the actions to be taken by the company step by step from appointment of Cost Auditor till the submission of the Cost Audit Report specifying the time schedule.

4. (a) What is the purpose of the audit prescribed under sec. 14AA of the Central Excise Act?

(b) What are the possible areas for misuse/malpractice?

(c) Prepare a checklist for carrying out an audit under sec. 14AA of the Central Excise Act.

5. (a) The financial profit and loss account for the year 2007-08 of a company shows a net profit of Rs.26,28,000. During the course of cost audit, it was noticed that:

- (i) The company was engaged in trading activity by purchasing goods at Rs.4,00,000 and selling it for Rs.5,00,000 after incurring an expenditure of Rs.25,000.
- (ii) Some old assets sold off at the year-end fetching a profit of Rs.80,000.

- (iii) A major overhaul of machinery was carried out at a cost of Rs.4,00,000 and the next such overhaul will be done only after four years.
- (iv) Interest was received amounting to Rs.1,50,000 from outside investments.
- (v) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead was Rs.1,85,000 in opening WIP and Rs.3,15,000 in closing WIP.

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

- (b) What are the preliminary information you, as a Cost Auditor, will collect from the company which is subject to cost audit for the first time?

6. (a) The Managing Director of a company wants your advise as a management auditor on the points to be considered for take over of a manufacturing company. Prepare a checklist for this purpose.

(b) Today's customer is the more demanding than the customer of yesterday. In view of this, how would you evaluate, as a Management Auditor, the performance of "Customer Services Department".

7. (a) What information is required to be furnished by the Cost Auditor in the "Annexure to the Cost Audit Report", and "Observation and Suggestion" in regard to exports, if any, of the product under audit?

(b) How are Abnormal/Non-recurring Costs to be treated in Cost as per para 17 of the Annexure to the Cost Audit Report Rules, 2001? Give illustration of such Costs.