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Cost Audit & Operational Audit

Test paper - IV/17/ COA / 2008 T-1

Ans. 1(a) Goodwill included in F.A. is to be excluded in computing Capital Employed (True)

(ii) A default in payments to financial institutions is a subject of matter of comment by the cost Auditor in his report (True)

(iii) Royalty paid by a cement company for raising lime-stone is to be excluded from cost of raw material. (False).

(iv) Acceptence of fees by a practicing cost Acc. for certifying certain statements for lawyer professional misconduct. (True).

(v) According to Cost Accounting Records Rules, inter divisional transfer of intermediate products should be affected by market price (False).

(vi) Under the existing regu., a Cost Accountant in practice who is also a Chartered A/c can also practice as a CA (False)

(vii) The cost Auditor is a member of Audit committee of the company (False).

(viii) Managing Director's remuneration paid as %age of profit is includible under the head salaries & wages in cost of prodn. (False).

(ix) A Large scale footwear unit - - - - - - - - u/s 209(1)(d) of the Co. Act (True)

(x) Valuation of inventory in para 19A of annexure of cost Audit report should be as on last date of F.Y. (True).

Ans. 1(b) 10 Companies
(ii) 60 companies
(iii) Twelve firms as Join Auditors
(iv) Total clearence from factory
(v) 45 days of commencement of every year.

Ans. 2(a) (i) A concurrent auditor may be viewed as a person holding an office of profit of the company & access the management & control of the company & appraise the earnings (profit) of the company, so he cannot be appointed as the cost auditor of the same company of for that year.

Ans. 2a(ii) Under para 6 of annexure d to the cost Audit Report, Breakup of cost of input materials imported during the year under audit. Major input material each cosisting at 2% of the total material cost.

Ans. 1(a) (iii) Every public company having paid up capital of not less than 5 crores rupess shall constitute a committee of Board known as P Audit Committee

Ans3 Steps for the appointment of Cost Auditor:
(1) Short list of pannale of Cost Accountants in practice & place it before the board of Directors for the selection of cost Auditor.

2. Board will pass a resolution proposing the name of Cost accountant & fix his remuneration prior to this, the company should obtain a certificate from the cost auditor. under <u>sec. 224 (1-B)</u> that he does not suffer any disqualification and that the audit within the ceiling no. of audits prescribed.

3. Make an application inform 23C to the central Govt seeking approval for appointment of the cost auditor with the prescribed fees.

4. Approval of the central Govt. will be communicated to the company with a copy to Cost Auditor.

5. The company shall periodically make available to the cost auditor the cost accounting records prescribed U/s 209 (1) (d) of the Co. Act 1956.

6. Within 135 days from the close of accounting year the co. shall prepare the annexure to the Cost Audit Report under the CARR 2001 & submit to the cost auditor of this audit.

7. Within the 180 days the company shall place before the Board of directors annexure to cost Audit Report and product cost sheet for their approval subsequent they should signed by the secretary of the company & one

director by the two directors & forwarded to the cost auditor for the signature and submission to the central Govt. [Cost Audit Branch].

8. The cost Auditor shall within 180 days from the close of accounting year, audit the cost Accounting Records u/s 209 (1)(d) and annexure to the Cost Audit Report & submit his report to the Central Govt. with a copy to the company ~~too~~.

Ans. 5.

Reconcilation Statement

		Rs.	Rs.
	Profit as per financial P&L A/c		26,28,000
Add:	Proportionate change i.e. three forth for overheads of machinery not provided in cost Accounts	3,00,000	
	Difference in valuation of W.I.P.	1,30,000	4,30,000
Less:	Trading profit not included in cost A/c (5,00,000 - 4,00,000 - 25,000)	75000	
	Profit on sale of old Assets	80,000	
	Int received from an outside investment	1,50,000	3,05,000
	Profit as per cost Accounts.		27,53,000

Ans. 5 (b) Following are the preliminaries that as a cost auditor will collect for the audit of the company:

(i) Familiarity with records: Familiarity with the cost accounting recording rules for the particular industry is essential.

(ii) Familiarity with the industry: Details of manufacturing processes, product varieties, specialities of produces, should be collected before taking up the audit.

(iii) Familiarisation with the company: A knowledge of the organisation structure, existing system & procedure & methods of cost accounting vis-a vis financial accounting being followed shall be necessary.

(iv) Submission of standard requirements: It would be advisable to handover the required information explanation etc.

(v) Familiarity with the cost structure: A broad idea of cost structure of the industry is necessary.

(vi) Planning for checking the records.

(vii) Organising the staff: The audit assistants should be familiar with the format & contents of the cost statement & Cost Audit Report.

(viii) Discussion of the cost audit programme with the management ensures the success of the audit.

Ans. 4 Purpose of Audit under sec. 14AA of Central Excise Act is to find out the reason of fraud. The commissioner of Central Excise has reason to reasons to believe that the audit of duty availed of or utilized under the rules by a manufacturer is not with in the normal limits.

Ans. 4(b) Possible areas of misuse/ mal practice

(i) Showing consumption of inputs higher than the norms & corresponding higher wastage/ scrap.

(ii) Claiming CENVAT on Input used for production of goods exempted from the duty.

(iii) Claiming depreciation on the CENVAT element included in the value of capital goods.

(iv) Claiming CENVAT on capital goods which are specifically excluded.

Ans. 4 (C) Checklist for carrying out audit U/S 14AA

Name of the industry and the method of costing adopted.

(ii) Principal Raw material used the input/ output ratio norms established for the industry/ company.

(iii) Percentage of wastage/ scrap/ loss standard and actual for the previous of five years.

(iv) Value of inputs for which CENVAT has been availed/ utilized vis-a-vis the value of inputs actually consumed for production.

(v) In the case of consumable for which CENVAT has been availed whether expenses charged to revenue are gross or net of CENVAT.

(vi) Procedures adopted for payment of duty on goods sent to sub contractors / other factories of the assessee.

Ans. 2

Normally in case of MIS Reports timelines is more important than 100% accuracy as the report is used for regular quick view of the performance by the management & taking corrective actions as needed promptly. A marginal difference is always tolerated.

In this case, the data given in the MIS reports are almost equal to actual, hence this minor discrepancy may be ignored. However the difference between the audited accounts / published annual reports and cost Account records must be deal properly in the cost Audit Report the three items of discrepancy should be dealt which is as follows:

1. Production :-

The total quantity of production as reported in the annual report (125966 tones) is to be taken as correct through the quantity of second has not reported seperately. Every efforts must be made to reconcile the production quantity difference as per MIS. Error in production will also result in excise problems. Similarly the auditor must satisfy himself about the valuation of the inventory of seconds.

2. Depreciation: The treatment is cost accounting records is correct as this is on the basis of actual working of plant. The difference would be shown as an item of reconcilation between costing & financial profits.

3. Power consumption:- The consumption is reported in the annual report would have been checked by the statutory auditors. It is likely that in the case of cost accounting records power consumption for some cost centres ~~as well~~ could have been on some techanical estimations for wants of facilities for precise measurements. The cost auditor should check the monthly power bills for purchase & production records for own generations of power & reconcile the total production purchase & consumption. It is detailed verification the cost accounting records are proved to be correct, the discrepency should be reported in Para of the cost Audit Report as also the comparision of actual consumption with the norms. In this case, actual consumption is 228 kwh/tonne as against norms of 225 kwh/Tonne the difference is insignificant & doesn't call for any comment.