

ICWAI Group IV

Cost Audit and Operational Audit

Objective Type Questions and Answers

Question : 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 effected 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 Directors' remuneration paid as a percentage of profit is includible under 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.30 lakhs?
 - (1) 25 companies
 - (2) 20 companies
 - (3) 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 Department of Company 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
- (c) State/Define the following (one/two sentence 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, 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) Define – Green Room Meetings
 - (iv) Define – Sun Set Clause
 - (v) 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.

Answer to Question (a):

- | | | |
|-------------|------------|--------------|
| (i) True | (iv) True | (viii) False |
| (ii) True | (v) False | (ix) True |
| (iii) False | (vi) False | (x) True |

Answer to Question (b):

- (i) (3) – 10 Companies
- (ii) (2) – 60 Companies
- (iii) (2) – 12 firms as joint Auditors
- (iv) (2) – Total clearances from factory
- (v) (3) – 45 days

Answer to Question (c):

- (i) A concurrent auditor may be viewed as a person holding an office of profit of the company and so can not be appointed as the Cost Auditor of the same company for that year.
- (ii) 2%
- (iii) Green Room Meetings are such meetings which help in initiating Informal meetings within the World Trade Organization (WTO).
- (iv) Sun Set Clauses are such clauses which are specifically directed at keeping a constant review of restrictive measures like Anti-Dumping, countervailing measures etc.
- (v) Five crores.

Question 2

- (a) State whether the following statements are "TRUE" or "FALSE" justify with reasons:

- (i) Management Audit Report is to be submitted to the Cost Audit Branch.
 - (ii) The Ministerial Conference shall establish five functional committee for discharge of functions agreed to them under the Multilateral Trade Agreements.
 - (iii) The Secretariat of the WTO will be headed by a Secretary.
 - (iv) For stock hypothecation to the Bank, insurance coverage is required for Seventy-five percentage of stock as margin money.
 - (v) Productivity is broadly defined as the ratio of production and sales.
- (b) Fill in the-blanks with appropriate word/words:
- (i) Authority can be delegated but not the _____.
 - (ii) Dumping is an _____ practice.
 - (iii) The Audit Committee shall meet at least _____ a year.
 - (iv) _____ is a movement protecting the interest of the consumers.
 - (v) The efforts, which are directed towards humanizing the jobs and their contacts in order to overcome monotony and boredom in carrying out job is called _____.

- (c) Explain in brief the basic differences between any two out of the following:

- (i) Inventory Audit and Audit under section 14AA of the Central Excise Act.
- (ii) Voluntary Cost Audit and Internal Audit.
- (iii) Sales and Marketing.

Answer to Question (a).

- (i) "FALSE" Management Audit Report is to be submitted to the Management of the concern.
- (ii) "FALSE" The Ministerial Conference shall establish three functional Committees for discharge of functions agreed to them under the Multilateral Trade Agreements. These are:-
 - (a) Committee of Trade and Development.
 - (b) Committee on Balance-of-Payments Restrictions.
 - (c) Committee on Budgets, Finance and Administration.
- (iii) "FALSE" The secretariat of the WTO will be headed by a Director-General.
- (iv) "FALSE" For stock hypothecation to the bank Insurance coverage is required for Full Value.
- (v) "FALSE" Productivity is broadly defined as the ratio of output to input.

Answer to Question (b).

- (i) Authority can be delegated but not the responsibility.
- (ii) Dumping is an unfair practice.
- (iii) The Audit Committee shall meet at least thrice a year.
- (iv) Consumerism is a movement protecting the interest of the consumers.
- (v) The efforts, which are directed towards humanizing the jobs and their contacts in order to overcome monotony and boredom in carrying out job is called Job Enrichment.

Answer to Question (c).

- (i) Inventory audit involves the following aspects:-
 - (1) Physical verification of stock
 - (2) Methods of valuation adopted
 - (3) Currency of stock (i.e. movement)

Under section 14AA of the Central Excise Act the purpose of audit is to find out that the credit of duty availed of or utilized is not within normal limits having regard to the nature of the excisable goods produced, the types of inputs used and other relevant factors.

- (ii) Cost audit is need not necessarily be ordered by Government. Many organizations feel the need to have the audit done every year or even before the period of commencement as per law. Cost audit is conducted under the report for voluntary cost audit. Internal audit is conducted for internal checking all the areas of the concern. The appointment of internal audit is made by the management of the concern and report is submitted to the management.
- (iii) Sales covers execution of order and collection of money from customers, whereas marketing creates the demand for the product by advertising and other marketing techniques. Sales are one of the Marketing area.

Question 3

- (a) State whether the following statements are "True" or "False".
No reason or justifications need be given.

- (i) Under utilization of capacity has no impact on cost of production.
- (ii) A person can be appointed as a Cost Auditor only if he is not in full employment elsewhere.
- (iii) Goodwill included in fixed assets is to be excluded in computing Capital Employed.
- (iv) Defaults in payments to financial institutions is a subject matter of comment by the Cost Auditor in his report.
- (v) Profit on sale of fertilizer to farmers by a sugar factory should be deducted in computing the cost of sugarcane purchased.
- (vi) According to Cost Accounting Record Rules, inter-divisional transfer of intermediate products for captive consumption should be effected at market price.
- (vii) A large scale footwear unit in the co-operative sector need not maintain cost accounting records.
- (viii) Cost incurred on repairs to machinery after a plant shut down caused by workers violence is to be excluded from cost of production.
- (ix) A Director on the Board, who is a nominee of a financial institution is covered by the definition of a "related party".
- (x) A small scale unit manufacturing shaving cream on contract basis for a large scale multinational company need not maintain cost accounting records u/s 209(1)(d).

- (b) How will you treat the following items in the Cost Accounting Records?

- (i) Interest received on security deposit with the Electricity Board.
- (ii) Commission paid to the Managing Director, as a percentage of profit, included in the financial accounts under the head 'Salaries and Wages'.
- (iii) Voluntary Retirement Compensation paid to workers, included under 'Wages'.
- (iv) 'CENVAT' availed as credit on purchased raw materials.
- (v) Profit on sale of fertilizers to cane-growers by a sugar company.

Answer to Question (a).

- (i) False
- (ii) True
- (iii) True
- (iv) True
- (v) False
- (vi) False
- (vii) True
- (viii) True
- (ix) False
- (x) True

Answer to Question (b).

- (i) Interest on security deposit with the Electricity Board can be set off against interest paid or alternatively, it can be taken as a credit against overhead.
- (ii) This is clearly an item to be excluded from cost. This should be shown as an item in the reconciliation statement between Costing and Financial P & L accounts.
- (iii) This is a one-time non-recurring expenditure. Even if it is included under 'Salaries & Wages' in Financial Accounts, it should be excluded for Cost Accounts purpose. This item is also an item of reconciliation between Cost and Financial Accounts.
- (iv) This is to be deducted from the cost of raw materials and only the net value should be taken in the priced stores ledger, which forms the basis for pricing material issues to cost centres.
- (v) This is purely a trading activity. Hence profit derived from such activity should be shown as an item of reconciliation between Financial and Cost Accounts.

Question 4

- a) State whether the following statements are 'True' or 'False'. No reason or justification need be given.
- i) In computing the cost of production for captive consumption, as per CAS-4, administrative overheads which are not directly related to production activity may be excluded.
 - ii) Interest costs should be included in inventory valuation for the purpose of bank audit.
 - iii) The special audit report under section 14A or 14AA of the Central Excise Act should be submitted in the prescribed form.
 - iv) Leather tanning industry is an industry causing above average environmental pollution.

- v) Corporate Image of a company is built up exclusively by its product quality and is not affected by its attitude towards its other stakeholders.
- vi) The objective of internal audit is not confined to detection of frauds, but extends to all areas of operational efficiency.
- vii) Management audit imposes barriers in executive decision making.
- viii) In the process of decision making by WTO, the European Union shall have the number of votes equal to the number of its member states.
- ix) While issuing certificate containing a number of pages and annexures, every page should bear the signature and seal of the Cost Accountant.
- x) The Managing Director of the company can be appointed as the Chairman of the Audit Committee.

b) Fill up the blanks:

- i) The Audit Committee shall meet at least _____ a year as per SEBI guidelines.
- ii) The Secretariat of WTO is headed by a _____.
- iii) Corporate image implies the _____ of a corporate body in all its fields of business.
- iv) As per OECD principles, the corporate governance framework should ensure _____ of all shareholders.
- v) Central Excise Revenue Audit (CERA) is conducted by the organization of _____.
- vi) Audit of valuation of goods under Central Excise Act is carried out u/s _____.
- vii) The report of the Cost Accountant u/s 14A or 14AA of the Central Excise Act is considered as a _____ under the Evidence Act.
- viii) For the purpose of antidumping law, injury margin means the difference between _____ of the domestic industry and landed cost of the imported product.
- ix) The Audit of CENVAT availed can be ordered only by the _____.
- x) According to CIMA terminology, the aim of management audit is to identify existing and potential within an organization and to recommend ways to rectify these _____.

Answer to Question (a).

- i) True
- ii) False
- iii) False
- iv) True
- v) False
- vi) True
- vii) False
- viii) True
- ix) True
- x) False

Answer to Question (b).

- i) The Audit Committee shall meet at least thrice a year as per SEBI guidelines.
- ii) The Secretariat of WTO is headed by a Director General.
- iii) Corporate image implies the Standing/reputation of a corporate body in all its fields of business.
- iv) As per OECD principles, the corporate governance framework should ensure Equitable treatment of all shareholders.
- v) Central Excise Revenue Audit (CERA) is conducted by the organization of C & A G (Comptroller & Auditor General).
- vi) Audit of valuation of goods under Central Excise Act is carried out u/s 14A.
- vii) The report of the Cost Accountant u/s 14A or 14AA of the Central Excise Act is considered as a Export Opinion under the Evidence Act.
- viii) For the purpose of antidumping law, injury margin means the difference between Fair Selling price of the domestic industry and landed cost of the imported product.
- ix) The Audit of CENVAT availed can be ordered only by the Commissioner of Central Excise.
- x) According to CIMA terminology, the aim of management audit is to identify existing and potential within an organization and to recommend ways to rectify these Management wearinesses/weaknesses.

Question 5

(a) State whether the following statements are "True" or "False":

- (i) The Shareholder of the company has no statutory right to demand a copy of cost Audit Report.
- (ii) Presently cost audit report should be sent to the Department of Company Affairs after binding.
- (iii) Cost audit report can be submitted with provisional figures if the audited accounts are not finalised.
- (iv) Para 27 of the Annexure to the cost Audit Report will help to minimise the litigations under Central Excise and Valuation Audit under Section 14A, CENVAT Audit under Section 14AA and Audit by Excise officials 2000.
- (v) Relevant costs are costs relevant for a specific purpose or situation.
- (vi) Cost auditor can not be appointed as internal auditor of the same company.
- (vi) Dividend can be declared out of Revaluation Reserve.

- (b) Choose the correct answer :
- (i) The company has to give documents to the cost auditor within
 - (1) 180 days ;
 - (2) 135 days;
 - (3) 90 days.
 - (ii) For Physical verification of inventory under Para 19B, figures are provided for
 - (1) current year and previous year;
 - (2) current year and previous two years;
 - (3) current year.
 - (iii) For written off stock under Para 18B figures are provided for
 - (1) current year and previous two years;
 - (2) current year ;
 - (3) current year and previous year.
 - (c) Fill up the blanks with appropriate word/words:
 - (i) Before starting cost audit work , an auditor should study the _____ industry concerned .
 - (ii) Value addition is the difference between _____ and the cost of bought out materials and services.
 - (iii) In Debt - Equity Ratio , Long Term Liabilities are the liabilities due for settlement more than _____ months after the date of the Balance Sheet.
 - (iv) For Calculation of Profit as a percentage of Capital Employed Profit should be _____ before arriving at the ratio.

Answer to question (a):

- (a) (i) **"TRUE"** - The shareholder of the company has no statutory right to demand a copy of cost Audit Report.
- (ii) **"FALSE"** - Presently the COST Audit report should be submitted to the Department of company Affairs through e- filing after digital signature .
- (iii) **"True"** - cost audit report should be submitted with the provisional figures as the audited accounts are not finalized and as soon as the audited accounts are completed , a supplementary cost audit report should be submitted by the cost auditor to the government as soon as the audited accounts are made available .
- (iv) **" True"** - it will help to minimize the litigations under central Excise, Valuation Audit, Cenvat Audit and EA 2000.
- (v) **"True"** - it is cost relevant for specified . purpose or satiation.
- (vi) **"True"** - Cost auditor is required to Comment on the Scope and Performance of internal audit it would tend to meditate against proper and dispassionate discharge of the duties of the cost audit if he is also the Internal auditor of the audited company.
- (vii) **" False"** - dividend cannot be declared out of Revaluation Reserve .

Answer to question (b):

- (i) (2) - 135 days Previously it was 90 days but as Cost Audit Report Rules, 1996, the number of days allowed to the company making available records etc. have been increased from 90days to 135 days .
- (ii) (3) - current year
- (iii) (1) - current year and Previous two years .

Answer to question (c):

- (i) Cost Accounting Record Rules of the
- (ii) Net sales .
- (iii) Twelve .
- (iv) Annualized

Question 6

- (a) State whether the following statements are "True " or False". Justify with reasons:
- (i) Management Audit Report is to be submitted to the Cost Audit Branch.
 - (ii) The Ministerial Conference shall establish five functional Committees for discharge of functions agreed to them under the Multilateral Trade Agreements.
 - (iii) The Companies Amendment Act, 2000 had introduced a new section 192A regarding Constitution of Audit Committees.
 - (iv) The Consumer Service Audit critically examines the outstanding payment of consumers.
 - (v) Energy Audit means monitoring the energy efficiency of different equipment and process.
 - (vi) The Secretariat of the WTO will be headed by a Secretary .
 - (vii) The goods can be imported without payment of customs duty and can be re-exported after repairs, reconditioning etc. and such re-export must be made within Five Years from the date of import.
- (b) Fill up the blanks with appropriate word/words :
- (i) Authority can be delegated but not the _____.
 - (ii) Dumping is an _____ practice.
 - (iii) The Audit Committee shall meet at least _____ a year.
 - (iv) _____ is a movement protecting the interest of the consumers.
 - (v) The _____ is the highest body of the structure of the WTO.
 - (vi) Personnel development, a vital aspect of corporate development calls for special _____.

- (vii) Audit Committee which shall consist of not less than _____ directors and such number of other directors as the Board may determine.

Answer to Question (a):

- (i) **"False"** Management Audit Report is to be submitted to the Management of the concern.
(ii) **"False"** The Ministerial Conference shall establish three functional Committees for discharge of functions agreed to them under the Multilateral Trade Agreements. These are:
a) Committee of Trade and Development
b) Committee on Balance-of-Payments Restrictions
c) Committee on Budgets, Finance and Administration
(iii) **"False"**. The Secretariat of the WTO will be headed by a Director-General.
(iv) **"False"**. The Consumer Service Audit critically examines and appraises management of responsibility of a business enterprise towards consumers at right time, in right quantity, at right place and price.
(v) **"True"**. Energy Audit means monitoring the energy efficiency of different equipment and process in a plant and looking into way by which the total sum of energy consumed can be cut down without affecting production.
(vi) **"False"**. The Secretariat of the WTO will be headed by a Director-General.
(vii) **"False"**. The goods can be imported without payment of customs duty and can be re-exported after repairs, reconditioning etc. and such re-export must be within Three Years from the date of import.

Answer to Question (b):

- (i) Authority can be delegated but not the responsibility.
(ii) Dumping is an unfair practice.
(iii) The Audit Committee shall meet at least Thrice a year.
(iv) Consumerism is a movement protecting the interest of the consumers.
(v) The Ministerial conference is the highest body of the structure of the WTO.
(vi) Personnel development, a vital aspect of corporate development calls for special assessment.
(vii) Audit Committee which shall consist of not less than three directors and such number of other directors as the Board may determine.

Question 7

- (a) State whether the following statements are "True" or "False".

No justifications/reasons need to be given for your answer.

- i) The annexure to the Cost Audit Report is to be prepared by the Cost Auditor.
ii) The Cost Auditor is appointed by the Board of Directors subject to the approval of the Central Government.
iii) A company which is sick and closed can seek exemption from Cost Audit even though an order has been issued to that company earlier under section 233B of the Companies Act.
iv) Non-moving stock of raw materials and components are those stocks which have not moved for more than 24 months.
v) If any of the products under audit is incurring losses, the Cost Auditor should work out the break-even level for the product, and report the same in his Cost Audit Report.
vi) A footwear unit in the Co-operative sector need not maintain cost accounting records u/s 209(1)(d) of the Companies Act.
vii) The Central Excise authorities have the right to call for a copy of the Cost Audit Report.
viii) A nominee director is covered by the definition of "related party".

- (b) Which of the following answer is correct?

- (i) The Annexures to the Cost Audit Report and Proforma should be signed by—
A. The Chief Finance Officer and the Managing Director.
B. One Director and Secretary.
C. The Secretary and the Chief Finance officer.
D. The Officer-in-Charge of Cost Accounts and the Secretary.
(ii) The maximum number of audit which can be accepted by a firm of Cost accountants having three partners is:-
A. 30 products.
B. 60 companies out of which not more than 30 companies shall be companies with paid up capital of more than Rs.25 lakhs.
C. 60 products
D. 30 companies.
(iii) Under the existing regulations, a Cost Accountant in practice can take as his partner.
A. Another practising Cost Accountant.
B. A practising Chartered Accountant
C. A practising Company Secretary.
D. An Advocate registered with the Bar Council.

Answer to Question (a).

- | | |
|------------|-------------|
| i) False. | v) True. |
| ii) True. | vi) True. |
| iii) True. | vii) True. |
| iv) False. | viii) False |

Answer to Question (b).

- (i) **B.** One Director and Secretary.
(ii) **B.** 60 companies out of which not more than 30 companies shall be companies with paid up capital of more than Rs.25 lakhs.
(iii) **A.** Another practising Cost Accountant.

Question 8

(a) State whether the following statements are "True" or "False".

No reason or justification need to be given

- i) Cost of Production of goods produced for Captive Consumption as per CAS-4 for Central Excise purpose should be certified in the prescribed form.
- ii) The statutory auditor (which term includes Cost Auditor) can only be an invitee and not a member of the audit committee.
- iii) Audit of records of manufacturing operations in customs bonded warehouse is compulsory in all cases.
- iv) In computing cost of production for captive consumption, administrative overheads which are not directly related to production activity may be excluded.
- v) Interest cost should be included in inventory valuation for purposes of bank audit.
- vi) Verification of compliance with various provisions of all applicable laws is part of the job of the internal auditor.
- vii) Operational Audit is termed as micro level management audit.

(b) Fill up the blanks:

- i) The Audit Committee shall meet at least _____ a year as per the SEBI listing agreement.
- ii) For the purpose of Anti-dumping law, injury margin means the difference between the non-injurious price due to the domestic industry and the _____ of the dumped imports.
- iii) CERA (Central Excise Revenue Audit) is conducted by the organization of _____.
- iv) The scope of work of an insurance surveyor is laid down in section _____ of the Insurance Act.
- v) _____ is the highest decision making body of the W.T.O.
- vi) The audit of Cenvat availed can be ordered only by the _____.
- vii) Operational Audit (or Value for money audit) has been defined as an organized search for ways of improving _____ and _____.

Answer to Question (a).

- i) True.
- ii) True.
- iii) False.
- iv) True.
- v) False.
- vi) True.
- vii) True.

Answer to Question (b).

- i) The Audit Committee shall meet at least Four a year as per the SEBI listing agreement.
- ii) For the purpose of Anti-dumping law, injury margin means the difference between the non-injurious price due to the domestic industry and the Landed value of the dumped imports.
- iii) CERA (Central Excise Revenue Audit) is conducted by the organization of C&AG (Comptroller & Auditor General).
- iv) The scope of work of an insurance surveyor is laid down in section u/s 64 UM of the Insurance Act.
- v) The Ministerial Conference is the highest decision making body of the W.T.O.
- vi) The audit of Cenvat availed can be ordered only by the Commissioner.
- vii) Operational Audit (or Value of money audit) has been defined as an organized search for ways of improving Efficiency and Effectiveness.

Question 9

(a) State whether the following statements are "True" or "False". Justify with reasons:

No credit will be given, if justification for your answer is not given.

- (i) The detailed provisions relating to the regulation of Cost Audit in India are contained in section 233B read with section 227(1) of the Companies Act.
 - (ii) A Cost Accountant cannot act as an Internal Auditor of the same company.
 - (iii) UK is the first country in the world in introducing the provisions of compulsory maintenance of Cost Accounting Records.
 - (iv) A Cost Accountant in practice has to keep the monies of his client in a separate bank account.
 - (v) An aggrieved Cost Accountant in practice has the right to appeal to the High Court on the nature of punishment awarded to him by the Council of ICWAI.
- (b) Which of the following are professional misconduct for a practicing Cost Accountant and which are not?
- (i) A practicing member/firm maintains branch office in India – each under the separate charge of a member of ICWAI/ Institute of Chartered Accountants.
 - (ii) Personal discussions/correspondences with prospective clients relating to achievement and capabilities by PCA (Practicing Cost Accountant)
 - (iii) Press Publicity (not an advertisement) regarding appointment as an Auditor.
 - (iv) An advertisement, notifying changes in address/partnership, dissolution etc., by the PCA(Practicing Cost Accountant).
 - (v) Accepts position as Cost Accountant previously held by some other Cost Accountant in practice on such conditions as to constitute undercutting.

(c) Which of the following is correct?

- (i) The company has to give documents to the cost auditor within
 - (1) 180 days
 - (2) 135 days
 - (3) 120 days

- (ii) How many days a Cost Auditor get after getting the information from the company of the close of financial year?
 - (1) 60 days
 - (2) 45 days
 - (3) 30 days
- (iii) Capital employed under Para 24 means average of
 - (1) Fixed Assets and Net Current Assets
 - (2) Share Capital plus Reserves
 - (3) Total Assets less Current Liabilities
- (iv) For Physical verification of inventory under Para 19B, figures are provided for
 - (1) Current year and Previous year
 - (2) Current year and Previous two years
 - (3) Current year
- (v) For written off stock, under Para 18B figures are provided for
 - (1) Current year and Previous two years
 - (2) Current year
 - (3) Current year and Previous year
- (d) Fill up the blanks with appropriate word/words:
 - (i) The Company should keep _____ asset register to identify factor-wise fixed assets, as well as fixed assets for activity under audit and other activity.
 - (ii) The maximum amount of penalty payable by a Cost Auditor for non-compliance with the provisions of the Cost Audit (Report) Rules, is Rs. _____.
 - (iii) Non-moving stocks of stores and spares are those stock which have not moved for more than _____ months.
 - (iv) The debit balance in the Profit & Loss Account is to be _____ in computing the net worth of the company.
 - (v) In Debt-Equity Ratio, Long Term Liabilities are the Liabilities due for settlement more than _____ months after the date of the Balance Sheet.

Answer to Question (a).

- (i) True: The statement is absolutely correct.
- (ii) False: A Cost Accountant can act as an Internal Auditor of the same company.
- (iii) False: India is the first country in the world in introducing the provisions of compulsory maintenance of Cost Accounting Records.
- (iv) True: The statement is correct.
- (v) True: The statement is correct.

Answer to Question (b).

- (i) It will not be misconduct only if the charge of the branch office is given to a member of ICWAI only.
- (ii) Personal discussing/ correspondence with prospective client will not be construed as misconduct.
- (iii) Both Press publicity / Advertisement will be construed as a misconduct if PCA notifies his/her appointment as an Auditor.
- (iv) Advertisement notifying changes in address/partnership, dissolution etc., is permitted and will, therefore, be not a misconduct.
- (v) A cost accountant in practice cannot accept a position as cost accountant previously held by some other cost accountant in practice on such condition as to constitute undercutting. It is a case of guilty of professional misconduct.

Answer to Question (c).

- (i) (2) – 135 days.
- (ii) (2) – 45 days.
- (iii) (1) – Fixed Assets and Net Current Assets
- (iv) (3) – Current year
- (v) (1) – Current year and Previous two years.

Answer to Question (d).

- (i) The Company should keep centre-wise asset register to identify factor-wise fixed assets, as well as fixed assets for activity under audit and other activity.
- (ii) The maximum amount of penalty payable by a Cost Auditor for non-compliance with the provisions of the Cost Audit (Report) Rules, is Rs. 5,000.
- (iii) Non-moving stocks of stores and spares are those stock which have not moved for more than 24 months.
- (iv) The debit balance in the Profit & Loss Account is to be deducted in computing the net worth of the company.
- (v) In Debt-Equity Ratio, Long Term Liabilities are the Liabilities due for settlement more than Twelve months after the date of the Balance Sheet.

Question 10

- (a) State whether the following statements are "True" or "False" with justification for your answer. No credit will be given for merely answering 'True' or 'False' – without giving any justification/reasoning:
 - (i) The concept of Management Audit was developed by T.G.Woods.
 - (ii) "Position Analysis" is one of the techniques used by the Management Auditor for evaluation of corporate image.

- (iii) Concept of Corporate governance has gained momentum now with the globalization and liberalization of the Indian economy since 1996.
 - (iv) Dumping Duty is fixed in Dollars and not in Rupee.
 - (v) "Organization Development" (OD) is a "Sensitivity Training" intervention.
 - (vi) In ABC System, the concept of 'Cost Centre' is very important.
 - (vii) Both Authority and Responsibility can be delegated.
 - (viii) Consumerism is a movement protecting the interest of the consumers.
 - (ix) Ergonomics and Human Engineering are one and the same.
 - (x) 'Dumping' is an illegal practice.
- (b) Fill in the blanks with appropriate word/words:
- (i) Waste Management records to be maintained and annual returns to be submitted under _____ Rules, 1989.
 - (ii) The _____ is the highest body of the structure of the WTO.
 - (iii) _____ is the evaluation of every resources declared in industry.
 - (iv) Personnel development, a vital aspect of corporate development calls for special _____.
 - (v) Audit Committee which shall consist of not less than _____ directors and such number of other directors as the Board may determine.
- (c) What do the following abbreviations stands for?
- (i) TRQ,
 - (ii) EIA,
 - (iii) EMS,
 - (iv) MFN,
 - (v) CII.

Answer to Question (a).

- (i) False: The concept of Management Audit was developed by T.G.Rose and not T.G.Woods.
- (ii) True: The statement is True.
- (iii) False: Globalization and Liberalization began in India in the year 1991.
- (iv) True: Dumping Duty is in terms of dollars only and not in Rupee.
- (v) True: The statement is True.
- (vi) False: In ABC system, the concept of 'Activity' centre and not 'Cost Centre' that is relevant.
- (vii) False: Only Authority can be delegated, Responsibility cannot be delegated.
- (viii) True: The statement is True.
- (ix) True: The statement is True.
- (x) False: 'Dumping' is an 'Unfair' practice.

Answer to Question (b).

- (i) Waste Management records to be maintained and annual returns to be submitted under Hazardous Waste Rules, 1989.
- (ii) The Ministerial conference is the highest body of the structure of the WTO.
- (iii) Productivity Analysis is the evaluation of every resources declared in industry.
- (iv) Personnel development, a vital aspect of corporate development calls for special assessment.
- (v) Audit Committee which shall consist of not less than three directors and such number of other directors as the Board may determine.

Answer to Question (c).

- (i) TRQ – Tariff Rate Quota.
- (ii) EIA – Environment Impact Assessment.
- (iii) EMS – Environment Management System.
- (iv) MFN – Most Favoured Nation.
- (v) CII – Confederation of Indian Industries.

Question 11

- (a) State whether the following statements are "True" or "False".
No reason or justification need be given.

- (i) **Cost Accounting Record Rules** once applicable to a company require cost accounting record to be maintained year after year on a continuous basis.
- (ii) The Cost Auditor should not exceed the number of audits, as prescribed under section 233-B(5) of the Company's Act, 1956.
- (iii) The Cost Auditor has same powers, as Financial Auditor has, under section 227(1) of the Company's Act, 1956.
- (iv) Interest received on the security deposit with the Electricity Board can be considered as an 'Investment outside the business'.
- (v) The real beginning of Cost Audit started in India in the year 1956, when the Company's Act, 1956 was amended to incorporate the provisions relating to the maintenance of Cost Accounting Records and Cost Audit.
- (vi) Financial position and Ratio analysis are being dealt with under Para-16 of the Cost Audit Report Rules.
- (vii) "Central Excise reconciliation for the product under reference" is being dealt with under Para 27 of the Cost Audit Report Rules.
- (viii) A copy of the Cost Audit Report must be attached to company's Income Tax Return.

- (ix) Every Cost Auditor shall have to give clarification, if any, required by the Central Government on the 'Cost Audit Report', submitted by him, within two months of the receipt of the communications, addressed to him, calling for such clarification.
 - (x) The Cost Auditor shall forward his report to the central Government and to the concerned company, within one hundred and sixty days from the close of the company's financial year to which the report relates to.
- (b) Choose the correct answer:
- (i) The structuring of cost audit includes
 - (a) Audit programmes
 - (b) Audit working papers
 - (c) Checking including test checking
 - (d) All of these
 - (ii) Examination of the cost and financial statements by the cost auditor may not include
 - (a) Licenced capacity, installed capacity, production and capacity utilized.
 - (b) Financial position including financial ratios as per Para-24 of the Annexure to the Cost Audit Report Rules.
 - (c) Fixed assets of the company.
 - (d) Sales realization – local and export in units and total of each variety or product.
 - (iii) The cost auditor shall submit cost audit report to Central Government containing
 - (a) Auditors observation and suggestions
 - (b) Annexure to the Cost Audit Report Rules.
 - (c) Proforma showing production costs, sales and margin
 - (d) All of these
 - (iv) The time limit for submission of Cost Audit Report is within
 - (a) 100 days from the close of the company's financial year
 - (b) 120 days from the close of the company's financial year
 - (c) 60 days from the close of the company's financial year
 - (d) none of the above.
 - (v) If default is made by the Cost Auditor in complying with the provisions of Rule 4 or Rule 5 of the Cost Audit Report Rules he shall be punishable with fine which may extend to
 - (a) Rs.7,000
 - (b) Rs.6,000
 - (c) Rs.5,000
 - (d) none of the above.
 - (vi) In Para-4 of the Annexure to the Cost Audit Report Rules production during the year is
 - (a) Self manufactured
 - (b) Third party or job work
 - (c) Loan license
 - (d) All of the above.
 - (vii) Each major materials for which details to be furnished as per Annexure to the Cost Audit Report Rules should constitute
 - (a) 10% of the raw material cost
 - (b) 2% of the raw material cost
 - (c) 5% of the raw material cost
 - (d) 1% of the raw material cost
 - (viii) The role of cost auditor in respect of non-moving stock is to review
 - (a) The causes explained by the company for non-movement of the items.
 - (b) How the company deals with the non-moving stock
 - (c) The policy of the company regarding determination on non-moving items
 - (d) All of these.
 - (ix) As per the Companies Act, every public company shall constitute "Audit Committee" if the capital of the company is not less than –
 - (a) Rs.5 Crores
 - (b) Rs.10 Crores
 - (c) Rs.25 Crores
 - (d) None of these
 - (x) Royalty and technical know-how charges are being dealt with in Annexure to Cost Audit Report Rules vide –
 - (a) Para –12
 - (b) Para –16
 - (c) Para –14
 - (d) Para –8

Answer to Question 1(a):

- (i) True
- (ii) False
- (iii) True
- (iv) False
- (v) False
- (vi) False
- (vii) True
- (viii) True
- (ix) False
- (x) False

Answer to Question 1(b):

- (i) d
- (ii) c
- (iii) d
- (iv) d
- (v) d
- (vi) d
- (vii) b
- (viii) d
- (ix) a
- (x) c

Question 12

- (a) Under what conditions, will the appointment of Cost Auditor for conducting Cost Audit be appointed in firm's name? Who will authenticate such reports and how? Can the appointment of proprietary firms also be appointed?
- (b) A Cost Accountant takes voluntary retirement from his employer and starts practice. He continues his association with his previous employer as an auditor, on a monthly retainer. Does his actions amount to professional misconduct?
- (c) Can a Cost Accountant, who is appointed as the concurrent auditor of a company accept appointment as Cost Auditor of the same company?
- (d) A Cost Accountant gives a certificate of cost for a product manufactured by an SSI Unit owned entirely by his son. Is he right?

Answer to Question (a):

Appointment of Cost Auditor under on Firm's name will be subject to the following conditions:

- (i) "All the partners of the firm are full time cost accounting practitioners within the meaning of sections 6 and 7 of the Cost and Works Accountants Act, 1959" and
- (ii) "The firm itself has been constituted with the previous approval of the Central Government/Institute as required under Regulation 113 of the Cost and Works Accountants Act, 1959 as amended from time to time".

Who will authenticate such reports and how?

Authentication of Cost Audit Report in cases where a firm of Cost Auditors is approved u/s 233 B (2) of the Companies Act, 1956, for conducting cost audit:

- (i) In case where a firm of Cost Auditors is approved for appointment under sub-section (2) of section 233 B ibid, the Cost Audit Report shall be signed by any one of the partners of the firm responsible for the conduct of Cost Audit in his own hand, for and on behalf of the firm, which has been approved for appointment of Cost Auditors of the company. In any case the report should not be signed by merely affixing the "firm's name".

Can the appointment of the proprietary firms also be appointed?

Yes, with the amendment to regulation 10B of the ICWAI Regulations on 25.9.93, a proprietary firm can be approved by the council of the Institute and therefore can be appointed as Cost Auditor but at the same time for the same financial year the Cost Auditor of the company can not be its Internal Auditor and/or a Concurrent auditor and may be viewed as a person holding an office of profit

Answer to Question (b):

As the Cost Accountant has served his connection with his previous employer as an employee and acts only in an advisory capacity, only after voluntary retirement from his employer and starts practice after obtaining practising license which is legitimate activity of a practicing Cost Accountant, it does not amount to misconduct.

Answer to Question (c):

A concurrent auditor may be viewed as a person holding an office of profit of the company and so can not be appointed as the cost auditor of the same company.

Answer to Question (d):

Strictly speaking, a cost accountant issuing a certificate for a unit in which he has no direct interest is in order. However, as in the subject case, the factory is owned by the cost accountant's son, it would be prudent in the part of the Cost Accountant to desist from issuing such a certificate on moral ground.

Question 13

- (a) Fill in the blanks:
- Cost Audit is ordered by the Government under Section _____ of the Companies Acts, 1956.
 - Cost audit report has to be submitted to the Central Government with a copy of the _____ of the company
 - A cost auditor cannot undertake audit of more than _____ companies having a share capital of more than 25 lakhs.
 - When a clean report is not given by a cost auditor it is called a _____ report.
 - Audit Committee shall meet atleast _____ a year.
- (b) The following figure relate to usage of power for a product.
- | | <u>2006-07</u> | <u>2005-06</u> | <u>2004-05</u> |
|--------------------------------|----------------|----------------|----------------|
| Total Power Consumed (Kwh) | 24,02,474 | 24,94,872 | 21,75,677 |
| Rate/Kwh (Rs.) | 2.29 | 2.12 | 1.90 |
| Total Production in Million kg | 337.730 | 333.084 | 300.865 |
- Compute necessary productivity measures and compare the efficiency of power usage during the three years.
- (c) What do the following abbreviations stands for?
- MAR
 - LTO
 - OECD
 - COO
 - SEBI

Answer to Question (a):

- Cost Audit is ordered by the Government under Section 233B of the Companies Acts, 1956.
- Cost audit report has to be submitted to the Central Government with a copy to the Board of Directors of the company
- A cost auditor cannot undertake audit of more than ten companies having a share capital of more than 25 lakhs.
- When a clean report is not given by a cost auditor it is called a qualified report.
- Audit Committee shall meet atleast thrice a year.

Answer to Question (b):

	<u>2006-07</u>	<u>2005-06</u>	<u>2004-05</u>
Power consumed in Kwh	24,02,474	24,94,872	21,75,677
Rate per Kwh (Rs)	2.29	2.12	1.90
Total Power cost (Rs)	55,01,665	52,89,129	41,33,786
Production (in million kgs)	337.730	333.084	300.865
	(337730 MT)	(333084 MT)	(300865 MT)
Power cost/ MT (Rs)	16.29	15.88	13.74
Power usage MT (KWH)	7.11	7.49	7.23

Variances over previous year

Rate (Rs) (2402474) × (2.29 - 2.12)	4,08,420 (A)	5,48,872 (A)
Volume (Rs)	73,774 (A)	4,42,678 (A)
Usage (Rs)	2,69,658 (F)	1,63,793 (A)
	2,12,536 (A)	11,55,343 (A)

Calculation of variances:

Volume variance:

	<u>2006-07</u>	<u>2005-06</u>	<u>2004-05</u>
Total power consumed (Kwh)	24,02,474	24,94,872	21,75,677
Rate per Kwh Rs.	2.29	2.12	1.90
Rate variance	24,02,474(2.12 - 2.29)	24,94,872(1.90 - 2.12)	
	=Rs.4,08,421 (A)	=5,48,872 (A)	
Production in Mill Kg	337.730	333.084	300.865

Volume variance:

2006 - 07 & 2005 - 06 (33084 - 337730) × 15.88 = Rs.73,778 (A)
2005 - 06 & 2004 - 05 (300865 - 333084) × 13.74 = Rs.4,42,689 (A)

Usage variance:

2006 - 07 & 2005 - 06
212536 - 408421 - 73778 = Rs.269663 (F)
2005 - 06 & 2004 - 05
1155343 - 548872 - 442689 = Rs.163782 (A)

Total variance:

2006 - 07 & 2005 - 06 $5289129 - 5501665 = \text{Rs.}212536 \text{ (A)}$

2005 - 06 & 2004 - 05 $4133786 - 5289129 = \text{Rs.}1155343 \text{ (A)}$

Answer to Question (c):

- (i) MAR - Management Audit Report
- (ii) LTO - Labour Turn Over
- (iii) OECD - Organization for Economic Co-operation and Development
- (iv) COO - Chief Operating Officer
- (v) SEBI - Securities and Exchange Board of India

Question : 14.

(a) State whether the following statements are "True" or "False". Justify with reasons.

- (i) Cost Audit Firm is appointed as Internal Auditor of Textile unit and Cost Auditor of Fertilizer Unit of the same company.
- (ii) A Cost Accountant gives a certificate of cost for a product manufactured by an SSI unit owned entirely by his son
- (iii) Under the present day scenario of "liberalized economy", the importance of Cost Audit has diminished.
- (iv) Amortization of deferred expenses will always be same in Financial Accounts and Cost Accounts.
- (v) The Excise officers, Excise Auditors and Auditors appointed by C&AG (CERAAuditors) have the powers to demand the Cost Audit Report.

(b) Which of the following is correct?

- (i) The Financial year of a Detergent Company is from 01.01.2005 to 31.12.2005. When does the Cost Audit Report to be submitted?
(1) 31st March, 2006
(2) 30th September, 2006
(3) 30th June, 2006
- (ii) Draft for appointment of Cost Auditor for paid up capital of Rs. 30 lakh sent to Department of Company Affairs.
(1) Rs. 500/-
(2) Rs.10,000/-
(3) Rs.1,000/-
- (iii) Man days available for one worker for a year of total days=365, weekly off=50, Absent for Sick etc.=20, Lay off=5 & Paid Holidays=10
(1) 300 days
(2) 280 days
(3) 310 days
- (iv) Under Para 23, Cost of bought out Services includes:
(1) Raw Materials
(2) Cost of Utilities
(3) Indirect Material
- (v) Under Para 4, Third party on job work means
(1) the company has manufactured goods for others
(2) the company gets manufactured goods from outside parties
(3) the company has manufactured and gets goods manufactured from outside parties.

(c) Fill in the blanks with appropriate word/words:

- (i) _____ is the verification of the correctness of cost accounts and adherence to Cost Accounting principles.
- (ii) Two of the basic principles governing an audit are _____ and _____.
- (iii) Value addition is the difference between _____ and the cost of bought materials and services.
- (iv) Form No. _____ is used for seeking the approval of the Central Government for appointment of a Cost Auditor.
- (v) _____ is defined as Share Capital plus reserves and surplus less accumulated losses and intangible assets.

Answer to question (a)

- (i) "TRUE" as two units are separate though it may be under same management.
- (ii) "FALSE" - Strictly speaking, a Cost Accountant issuing a certificate for a unit, in which he has no direct interest, is in order. In the instant case, since Cost Accountant's son owns the SSI unit, it will be prudent on the part of the Cost Accountant to desist from issuing such a certificate on moral grounds.

- (iii) **"FALSE"**- Rather the necessity for and utility of properly documented cost data under a Cost Audit Report is keenly felt than ever before. The Cost Audit Reports now have assumed greater importance and significant under "liberalized economy".
- (iv) **"FALSE"**- Amortisation of deferred expense charge will be different.

Financial A/cs - Benefit of expenses may extend for a period of 6 years i.e., yearly 1/6th of Total Amount.

Cost A/cs- The Benefit of expense may extend for a production quantity of 20,000 numbers and assuming equal production quantity of six thousand numbers for each of the three years, which will work out at 30% of total amount, may be the amortization charge for each year in Cost Accounts.

- (v) **"TRUE"**- As per the relevant provisions of the Central Excise Rule-22 subrule(3), the Excise Officers, Excise Auditors and Auditors appointed by C & AG (CERA Auditors) have the power to demand the Cost Audit Report.

Answer to question (b)

- (i) **"3"** as Cost Audit Report is to be submitted within 180 days from the date of closing i.e., within 30th June, 2006.
- (ii) **"3"** - Draft will be Rs. 1000/- (the slab for paid up Capital upto Rs 25 lakh, Draft amount is Rs.500/-) Where paid up capital is more than Rs. 25 lakhs but less than Rs.5 crores – Draft Amount will be Rs.1000/-.
- (iii) **"1"**- as Man days available is calculated as follows:-
- | | | |
|---------------------|---|-----------------|
| Total Days | = | 365 days |
| Less: Weekly off | = | 50 days |
| Less: Lay off | = | 5 days |
| Less: Paid Holidays | = | <u>10 days</u> |
| | | <u>300 days</u> |
- (iv) **"2"** – under para 23, Cost of bought out services includes Cost of Utilities such as Power, Water, Steam etc. which are purchased
- (v) **"1"** – as per under para 4(4)(b) Third Party on job work means the company has manufactured goods for others.

Answer to question (c)

- | | |
|-----------------------------------|-----------------|
| (i) Cost Aud. | (iii) Net Sales |
| (ii) Confidentiality, objectivity | (iv) 23C |
| | (v) Net Worth |

Question : 15

- (a) Whether the following statements are "TRUE" or "FALSE" justify with reason:
- (i) Energy Audit means monitoring the energy efficiency of different equipment and process.
- (ii) Productivity Audit is basically the analysis of the productivity of the resources.
- (iii) The goods are imported and stored in warehouse under bond and can be re-exported without duty within five years from date of import.
- (iv) Cost of production of goods cleared for captive consumption should be certified as per CAS-4 only by a practicing Cost Accountant.
- (v) Management Audit extends beyond Operations Audit.
- (b) Indicate the functional area you will take up for Management Audit for verification of the following transactions:
- (i) Consumption of fuel in the Captive Power Plant.
- (ii) Control of traveling expenses of sales representatives.
- (iii) Excessive idle time in one of the production departments.
- (iv) Credit allowed to customers
- (v) Cost of training of employees.
- (c) Explain in brief the basic differences between any two out of the following:
- (i) Corporate Image and Brand Equity;
- (ii) Sales Tax and Excise;
- (iii) Valuation Audit and Cervat Audit;

Answer to question (a)

- (i) **"TRUE"** as Energy Audit gives suggestion how energy consumed can be cut down without affecting Production.
- (ii) **"TRUE"** as Productivity Audit is the analysis of the productivity of the resources deployed by an organization. Resources would include 'Money', 'Men', 'Machines', 'Materials' and 'Methods'.

- (iii) "FALSE" as the re-export must be within three years from the date of import.
- (iv) "TRUE" - out of total available quantity, it should be expressed as (i) Quantity captively consumed (ii) Quantity sold under different categories and (iii) Closing stock.
- (v) "TRUE" - it extends to the entire management decision making areas and has a broader time frame to analyze past, present and the future for qualitative audit brings out errors of policy decisions and actions with recommendations to avoid them.

Answer to question (b)

- (i) Operations
- (ii) Marketing
- (iii) Production
- (iv) Marketing and Accounts
- (v) Personnel (HRD)

Answer to question (c)

- (i) "Corporate Image" stands for the qualities which the general public attributes to a corporate body e.g., House of Tatas, Birlas etc.
"Brand Equity" stands for the brand/ quality formed by the consumers belief about the special attributes of a product, e.g., "Hamam", "Surf", "Dettol" etc.
- (ii) "Sales Tax" is a tax on sales and hence can be imposed only where there is a sale. But, "Excise Duty" is a duty on manufacture and the duty liability is fastened immediately after goods are manufactured, whether these are sold or not is immaterial.
- (iii) "Valuation Audit" is ordered in order to ensure that the excise duty has been paid on the correct "assessable value". Such an audit are ordered as per sec-14A of C E A. This can be ordered only with the approval of Chief Commissioner of Central Excise. "Cenvat Audit" is a special audit u/s-14AA of C E A. This audit is done to ascertain if Cenvat Credit has been availed of/utilized correctly or not. Such an audit is ordered by the Commissioner of Central Excise and can only be carried out by a practicing Cost Accountant.

Question 16(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 retainership basis.
- (ii) A Cost Accountant gives a certificate of cost for a product manufactured by a SSI unit, owned by his son.
- (iii) A Practising 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 Practising 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.

Answer to question no. (a).

- | | |
|------------|-------------|
| (i) False | |
| (ii) False | (vii) False |
| (iii) True | (viii) True |
| (iv) True | (ix) False |
| (v) True | (x) False |
| (vi) False | |

Answer to question no. (b).

- (i) As the Cost Accountant has served his connection with his previous employer as an employee and acts only in an advisory capacity, which is a legitimate activity of a practicing Cost Accountant, it does not amount to misconduct.
- (ii) Strictly speaking, a Cost Accountant issuing a certificate for a unit, in which he has no direct interest is in order. In the instant case, since the Cost Accountant's son owns the SSI unit, it would be prudent on the part of the Cost Accountant to desist from issuing such a certificate on moral grounds.
- (iii) Although the practicing Cost Accountant can accept the assignment for preparing statements for the 'Anti-dumping' cases for specified fees, the sharing of total fees on a percentage basis between the lawyer and the Cost Accountant amounts to an informal partnership between them, which is prohibited. Therefore, this practice would fall under the definition of misconduct.
- (iv) This acceptance of same assignment as a practicing Cost Accountant previously held by another practicing Cost Accountant does not amount to misconduct. It would have been misconduct if this acceptance had been done, without first communicating in writing with the previous Cost Accountant.
- (v) The sharing/disclosing of any information, so acquired in the course of his professional engagement (as a Cost Accountant) with any person, other than the client so engaging, without the consent of such a client will be an act of professional misconduct.

Question 17

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

- (i) Audit of human Resources Development is outside the scope of Management Audit.
 - (ii) The main emphasis of Management Audit is on problem-identification rather than problem solving.
 - (iii) Management Audit in certain specified companies may be ordered by the Government by a special resolution.
 - (iv) Management Auditor should be a qualified Accountant.
 - (v) Management Audit imposes barriers in executive decision making.
 - (vi) The special audit under section 14A and 14AA of the Central Excise Audit can be conducted by the practicing Cost Accountant only.
 - (vii) The cost of production of goods cleared for captive consumption should be certified as per CAS-4 only by a practicing Cost Accountant.
 - (viii) While issuing a certificate containing a number of pages, it would suffice, if only the last page is signed by the practicing Cost Accountant.
 - (ix) Audit of the records of the Accounts Department is outside the scope of Management Audit.
 - (x) Corporate image of a company is built up not only by its product quality, but also, by its attitude towards various stakeholders.
- (b) Explain in one/two sentences the main/basic difference between the following :**
- (i) Financial Audit & Management Audit;
 - (ii) Job-enrichment & Job Rotation;
 - (iii) Corroborative Evidence and Circumstantial Evidence;
 - (iv) Sales & Marketing;
 - (v) Data & Information

Answer to question no. (a)

- | | |
|-------------|--------------|
| (i) False | (vii) True |
| (ii) True | (viii) False |
| (iii) False | (ix) False |
| (iv) False | (x) True |
| (v) False | |
| (vi) True | |

Answer to question no. (b)

- (i) Financial Audit is intended to ensure that P/L A/c & B/s gives a true and fair view of profit or loss of the state of affairs of the business. Management Audit goes far beyond that Financial Audit is a legal necessity whereas the Management Audit is purely voluntary.
- (ii) Efforts, which are directed towards humanizing and harmonizing jobs and their contents, are known as Job-enrichment. It seeks to improve both efficiency and human satisfaction. Job rotation refers to the practice of changing people from one job to another so that the individual jobs they perform remain as devoid of interest and personal gains.

- (iii) Corroborative evidence confirms from other sources independent of the first source- the subject matter of an issue e.g. Auditor, seeking confirmation from customers to verify balances appearing in Debtors' Ledgers. Circumstantial evidence is a type of evidence obtained from, in and around the place of incidence, which is incidental to or connected with the main issues. It is not authentic and depends on presumptions e.g. Auditor detects cash shortage and the same amount is found in the pocket of the cashier.
- (iv) Sales covers execution of order and collection of money from customer, whereas marketing creates the demand for the product by advertising and other marketing techniques. Sales are one of the activities of the Marketing area.
- (v) Data is the raw material and information is the final product. Information is processed data. Top management should be fed with information only as they have no time to fiddle with data.

Question 18

- (a) State whether the following statements are "True" or "False". No reason or explanation need be given:
 - (i) The Cost Auditor is appointed by the board of Directors with the approval of the Central Government.
 - (ii) Revaluation reverses form part of net worth.
 - (iii) Capital employed is to be reported in para 28 of the Annexure of the Cost Audit Report as the average of the amount as on the date of the balance sheet for the year under Cost Cost Audit and that of the previous year.
 - (iv) Loss on sale of a machine in a production cost centre (capital equipment) is part of the cost of production .
 - (v) Goodwill included under Fixed Assets is part of capital employed.
 - (vi) The shareholders of a company have no statutory right to demand a copy of the Cost Audit Report.
 - (vii) The Cost Auditor has no right of access to the company's records other than those prescribed under the relevant Cost Accounting Record Rules.
 - (viii) Every company required to maintain cost accounting Records under section 209(1)(d) must get them audited under section 233B of the Companies Act.
 - (ix) There is no statutory provision for audit of cost accounts on an annual basis.
 - (x) Cost Audit can be conducted by a group of practicing cost accountants constituted as a body corporate.
- (b) Define the following terms as per the Cost Audit Report Rules, 2001:
 - (i) Net worth
 - (ii) Net sales
 - (iii) Profit
 - (iv) Value Addition
 - (v) Normal price

Answer to question 1.(a):

- | | |
|------------|--------------|
| (i) True | (vi) True |
| (ii) False | (vii) False |
| (iii) True | (viii) False |
| (iv) False | (ix) True |
| (v) False | (x) False |

Answer to question I.(b)

- (i) **Net worth** means share capital plus reserves and surplus excluding revaluation reserve less accumulated losses and intangible assets.
- (ii) **Net sales** means sales excluding sales returns, excise duties, sales tax octroi, other local taxes and expenses, refundable/recoverable from buyers/customers.
- (iii) **Profit** means operating profit after providing for depreciation and all other expenses except interest on borrowings including debentures but before providing for taxes on income.
- (iv) **Value Addition** means difference between net output value (net sales adjusted for work-in-progress and finished goods stock) and cost of bought out materials and services for the product under audit.
- (v) **Normal price** means price charged for comparable and similar product in the ordinary course of trade and commerce where the price charged is the sole consideration of sale and such sale is not made to a related party.

Question 19

(a) Fill up the blanks in the following statements:

Answer to Question (a)

- (i) Corporate objectives represents the charter for the organization as laid down by itself. (Study Note page no.7.3)
- (ii) Corporate image implies the standing of a corporate body in all its field of business from the judgmental view of its different stockholders. (7.4)
- (iii) Activity based costing is the extended application of value engineering to activity centres. (8.5)
- (iv) The main objective of the function of sales management is to create and develop customers and retain the position of the organization in the market. (7.47)
- (v) Energy audit means monitoring the energy efficiency of different equipment and processes in a plant. (8.9)
- (vi) Notional cost should not be considered in inventory valuation for bank finance. (8.17)
- (vii) India had to remove quantitative restrictions on imports as per WTO stipulation. (8.32)
- (viii) The Ministerial Conference is the highest executive body of the WTO responsible for carrying out its function. (8.33)
- (ix) Margin of Dumping means the difference between normal value and export price. (8.38)
- (x) Environmental audit is the systematic review by regulatory authorities of facilities, operations and practices for meeting environmental regulations. (8.42)

Question 20

(b) What do the following abbreviations stand for?

Answer to Question (b)

- (i) **MAP:** Management Audit Programme
- (ii) **OECD:** Organization for Economic Cooperation & Development
- (iii) **GAAP:** Generally Accepted Accounting Practices
- (iv) **APC:** Agricultural Pricing Commission
- (v) **CERA:** Central Excise Revenue Audit
- (vi) **DTA:** Domestic Tariff Area
- (vii) **CEGAT:** Central Excise and Gold Control Appellate Tribunal
- (viii) **GATT:** General Agreement on Tariffs and Trade
- (ix) **TRIPS:** Trade Related Intellectual Property Rights
- (x) **MFN:** Most Favoured Nation

Question : 21

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

- (i) Every company required to maintain Cost Records under section 209(1)(d) of the Companies Act is required to get such records audited under section 233(B) of the Companies Act.
- (ii) There is a set of Cost Accounting Records Rules prescribed under section (209)(1)(d) of the Companies Act, which is applicable to all the Companies requiring Cost Audit.
- (iii) Royalty is an item of Cost of Production under the Cost Accounting Records Rules.
- (iv) Cost Audit is statutorily recognized form of audit in most of the country.
- (v) Efficiency Audit ensures an optimum return on the Capital Employed.
- (vi) Depreciation in excess of that computed under section 205(2) of the Companies Act can not be taken for determination of cost under the Cost Accounting Record Rules.
- (vii) Cost Auditor is entitled to get the Notice of the General Body Meeting.
- (viii) Capital work-in-progress is required to be shown in the Cost Records.
- (ix) Cost Auditor has right of access to the Financial Books of the Company.
- (x) Cost Auditor has a Statutory right to visit the Branch of the Company

(b) Which of the following is correct?

- (i) The time limit for submission of the Annexure to the Cost Audit Report by the Company to the Cost Auditor is
(a) 90 days (b) 135days (c) 180days (d) Six month.
- (ii) The authority competent to approve the appointment of cost Auditor is
(a) General Body (b) Board of Directors (c) The CEO of the Company (d) Central Government

- (iii) The maximum number of audit which can be accepted by a firm of accountants having three partners is
 (a) For 30 products
 (b) 60 companies, out of which not more than 30 companies shall be companies with the paid up capital of more than Rs. 25 lacs
 (c) 60 products
 (d) 30 companies
- (iv) The maximum amount of penalty payable by a Cost Auditor for non-compliance with the provisions of Cost Audit Report Rules, 2001, is
 (a) Rs. 500 (b) Rs. 1500 (c) Rs. 5000 (d) Rs1000 per day
- (v) Under the existing regulations, a Cost Accountant in practice can take as a Partner:
 (a) Another Cost Accountant in full time practice
 (b) A practicing Chartered Accountant
 (c) A practicing Company Secretary
 (d) An advocate registered with the Bar Councils

Answer to question no. a)

- | | |
|-------------|-------------|
| (i) False | (ii) False |
| (iii) True | (iv) False |
| (v) True | (vi) False |
| (vii) False | (viii) True |
| (ix) True | (x) True |

Answer to question no. (b)

- (i) b
 (ii) d
 (iii) b
 (iv) c
 (v) a

Question :21

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

- (i) Management Audit in certain specified companies may be ordered by the Government by a special notification.
 (ii) Management Audit can be conducted efficiently only by an expert in the area of Cost Audit.
 (iii) Audit of Human Resource Development is outside the scope of Management Audit.
 (iv) Operational Audit is merely an extension of Internal Auditing into Operational Areas.
 (v) Management Auditors should not only be qualified Cost/ Chartered Accountant but have sound understanding of Audit Procedures.
 (vi) A practicing Cost Accountant cannot be appointed as Cost Auditor of a Co-operative Society.
 (vii) Under utilization of capacity has no impact on the Cost of Production of a product.
 (viii) Main objective of Internal Audit is to prevent errors and frauds.
 (ix) Internal Audit is compulsory in all manufacturing companies.
 (x) Physical verification is not a part of Stock Audit conducted by a Bank.

(b) Expand the abbreviations:

- | | |
|------------------------------|------------|
| (i) GATT,1994 & W.T.O.,1995\ | (ii) GAAP |
| (iii) GAAS | (iv) OECD |
| (v) CII | (vi) MCA |
| (vii) TPRM | (viii) MTA |
| (ix) TRIPS | (x) CAB |

Answer to question no. (a)

- | | |
|-------------|--------------|
| (i) False | (ii) False |
| (iii) False | (iv) True |
| (v) False | (vi) False |
| (vii) False | (viii) False |
| (ix) False | (x) False |

Answer to question no. (b)

- (i) **GATT,1994 & W.T.O.,1995-** General Agreement on Tariffs and Trades and World Trade Organizations.

- (ii) **GAAP** – Generally Accepted Accounting Principles.
- (iii) **GAAS** – Generally Accepted Auditing Standard.
- (iv) **OECD** – Organization for Economic Co-operation and Development.
- (v) **CII** – Confederation of the Indian Industry.
- (vi) **MCA** – Ministry of Company Affairs.
- (vii) **TPRM** – Trade Policy Review Mechanism.
- (viii) **MTA** – Multilateral Trade Agreement
- (ix) **TRIPS** – Trade Related Aspects of Intellectual Property Rights.
- (x) **CAB** – Cost Audit Branch.

Question 22

- (a) State whether the following statements are “True” or “False”, justify with reasons. No credit will be given, if justification for your answer is not given :
- (i) At present Cost Audit Report should be filed manually.
 - (ii) As per the provision under sub-sec. (10) of section 233-B of the Companies Act, the Central Government can direct a company to circulate the full/part of the Cost Audit Report to the shareholders.
 - (iii) “Export Performance” of a Company is beyond the scope and coverage of Cost Audit .
 - (iv) Hard Copy of Cost Audit Report submitted to the company without signature of Cost Auditor before Board Meeting.
 - (v) Cost Auditor qualified in his report for not submission of Excise Reconciliation where the company deposited only “Cess” to Excise Department.
 - (vi) New Cost Auditor is authorized to submit a supplementary report, if he considers it as necessary.
 - (vii) There are no statutory qualification requirements, if he considers it as necessary
 - (viii) Cost Records are not maintained even maintenance has been prescribed and order not issued.
 - (ix) A Practising Cost Accountant needs to file “Service Tax Returns” annually.
 - (x) Fees paid for the present Cost Audit by the company is less than the previous Cost Auditor.
- (b) Which of the following is correct ?
- (i) Clarification Cost Audit Report to be given to the Cost Audit Branch by the Cost Auditor within
 - (1) 45 days
 - (2) 180 days
 - (3) 30 days
 - (ii) Prescribed form of Cost Audit Report not followed by the Cost Auditor, fine will be
 - (1) Rs.500
 - (2) Rs.5000
 - (3) Rs.1000
 - (iii) For calculation of Capital Employed, average is considered for
 - (1) Current and Previous Year
 - (2) Current and Previous Two Years
 - (3) Five Years
 - (iv) For preparation of Cost Sheet, previous year/years figures are required
 - (1) Only last year
 - (2) Only last two years
 - (3) Only last Three Years
 - (v) Under Para 27, Cost Auditor gives Reconciliation only of
 - (1) Two Years
 - (2) Current Year
 - (3) Three Years
- (c) Fill up the blanks:
- (i) The Cost Accounting Records u/s 209(1)(d) are to be made available to the Cost Auditor within _____ days from the close of the financial year.
 - (ii) Non-moving Stocks of Stores and Spares are those Stocks which have not moved for more than _____ months.
 - (iii) The Annexure to the Cost Audit Report and Proforma should be signed by the _____ and _____ of the company.
 - (iv) Detailed provisions relating to Cost Audit are contained in Section _____ of the Companies Act.
 - (v) The ceiling on the number of Cost Audits to be undertaken by a Cost Auditor is laid down in Section _____ of the Companies Act.

Answer to Question (a)

- (i) False - At present Cost Audit report is filed by E-Filing .
- (ii) True - The given statement is correct. But this provision has rarely been

- applied.
- (iii) False - "Export performance" is within the scope and coverage of Cost Audit.
 - (iv) True - Cost Audit Report submitted to the company before Board Meeting without signature of Cost Auditor as it will be signed when the Director approve in the Board Meeting.
 - (v) False - Cess is not Excise and Excise Deptt. collects "Cess" and help the industry for collection and it is not part of Excise. So, qualify in his report.
 - (vi) False - If the Cost Audit report has been finalized with provisional figures, then only a "Supplementary Report" needs to be submitted by the Cost Auditor to the Government, as soon as the audited accounts are made available to him.
 - (vii) True - The Company can appoint anybody as "Internal Auditor".
 - (viii) False - Cost Records required to be maintained where maintenance of Cost Records has been prescribed under Sec 209(1)(d) of the Company's Act, even the order has not been issued to the Company.
 - (ix) False - A Practising Cost Accountant needs to file his Service Tax Returns on Half-Yearly basis one Return covering the period April to September and the second Return covering the period October to March.
 - (x) Fees paid to the present Cost Auditor can not be less than the previous Cost Auditor.

Answer to Question (b)

- (i) (3) - 30 Days
- (ii) (2) - Rs. 5000/-
- (iii) (1) - Current and Previous Year
- (iv) (1) - Only last year
- (v) (2) - Current Year

Answer to Question (c)

- (i) The Cost Accounting Records u/s 209(1)(d) are to be made available to the Cost Auditor within 90 days from the close of the financial year.
- (ii) Non-moving Stocks of Stores and Spares are those Stocks which have not moved for more than 24 months.
- (iii) The Annexure to the Cost Audit Report and Proforma should be signed by the Secretary and a Director of the company.
- (iv) Detailed provisions relating to Cost Audit are contained in Section 233 B of the Companies Act.
- (v) The ceiling on the number of Cost Audits to be undertaken by a Cost Auditor is laid down in Section 224 (1-B) of the Companies Act.

Question 23

(a) What do the following observations stands for ?

- (i) MAP
- (ii) GAAP
- (iii) CERA
- (iv) CEGAT
- (v) TRIPS

(b) State whether the following statements are "True" or "False" with justification for your answer. No credit will be given for merely answering True/False - without any justification/reasoning.

- (i) In the operation of Responsibility Accounting System, the concept of an "Activity centre" is very important.
- (ii) Zero base budget (ZBB) system was modeled by Peter A. Woodcock.
- (iii) Principles of Management Audit remain valid irrespective of the nature of an enterprise.
- (iv) Being a stakeholder in the Equity Share Capital of an undertaking, agencies like LIC, UTI and other financial institutions may conduct Management Audit - to avoid possible losses arising from inefficient management.
- (v) The efforts which are directed towards humanizing and harmonizing the jobs and their content are collectively know as "Job Enlargement".

(c) Fill in the blanks :

- (i) Corporate objectives represent the _____ that the organization has laid down for itself.
- (ii) Activity based costing is the extended application of _____ to activity centers.
- (iii) Energy audit means the monitoring of energy efficiency of different _____ and _____ in a plant.
- (iv) India had to remove _____ on imports as per WTO stipulations.
- (v) Margin of Dumping means the difference between _____ and _____

Answer to Question (a)

- (i) MAP - Management Audit Programme
- (ii) GAAP - Generally Accepted Accounting Practices
- (iii) CERA - Central Excise Revenue Audit
- (iv) CEGAT - Central Excise and Gold Control Appellate Tribunal
- (v) TRIPS - Trade Related Aspects of Intellectual Property Rights

Answer to Question (b)

- (i) False – In the operation of Responsibility Accounting System, the concept of a “Responsibility Centre” and not “Activity Centre” is very important.
- (ii) False – ZBB System was modeled by Peter A. Phyrre.
- (iii) True – Irrespective of the nature of an enterprise, the Principles of Management Audit will remain valid.
- (iv) True – The statement is correct as the “Management Audit” can be conducted by agencies like LIC, UTI and other financial institutions for to avoid possible losses arising from inefficient management.
- (v) False – The efforts, which are directed towards humanizing and harmonizing the job and their content are collectively known as “Job Enrichment” and not “Job Enlargement”.

Answer to Question (c)

- (i) Corporate objectives represent the charter that the organization has laid down for itself.
 - (ii) Activity based costing is the extended application of value engineering to activity centers.
 - (iii) Energy audit means the monitoring of energy efficiency of different Equipment and process in a plant.
 - (iv) India had to remove quantitative restrictions on imports as per WTO stipulations.
 - (v) Margin of Dumping means the difference between normal value and the price at which goods are exported.
-