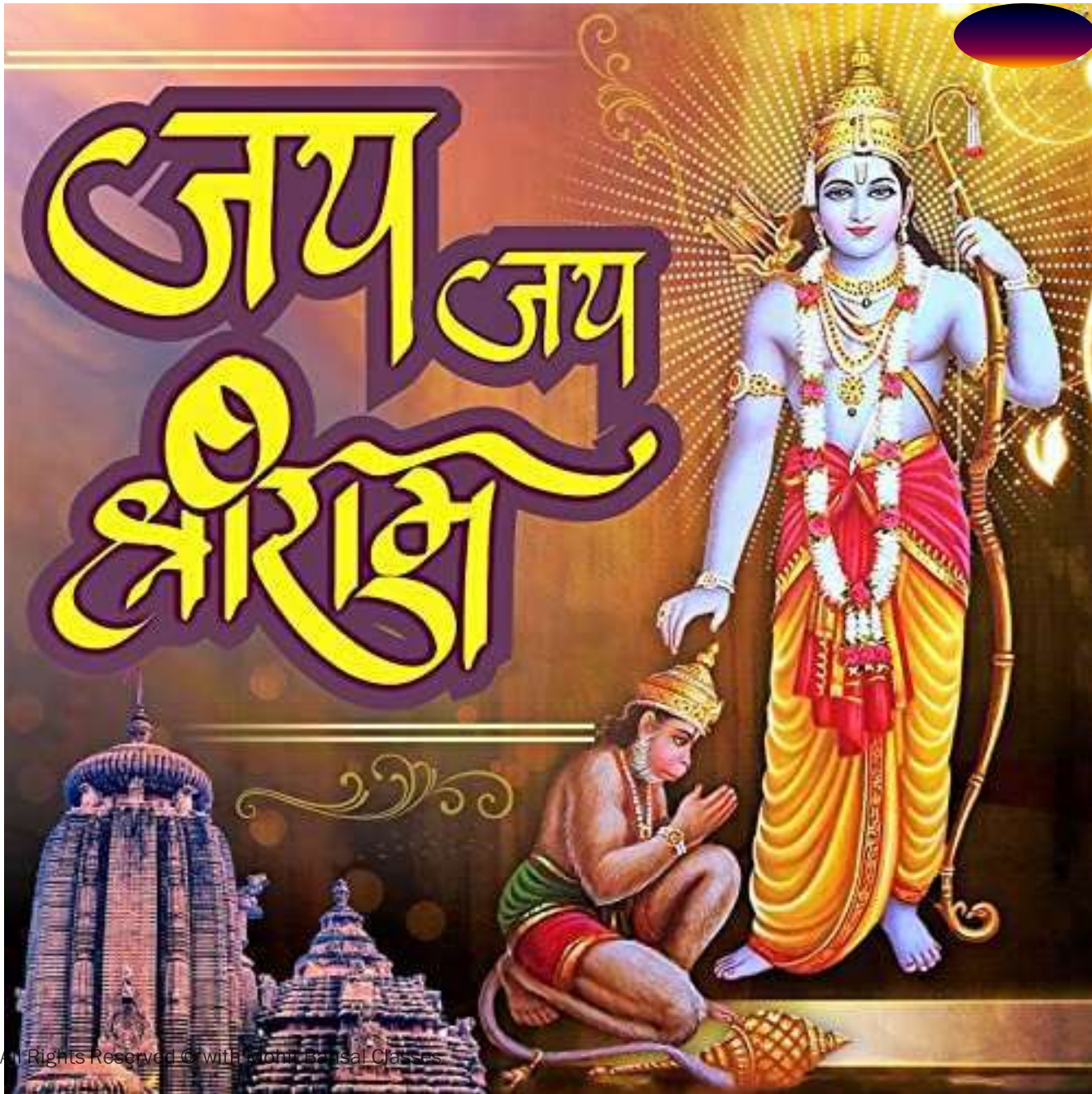


जय जय
श्रीराम



CMA FINAL - PAPER 17
COST AND MANAGEMENT AUDIT

**VOLUME
I**

SECTION - A: COST AUDIT
(50 Marks)

NEW SYLLABUS
2022 SYLLABUS

IMPORTANT THINGS ABOUT BOOK

- ✓ This Book Cover Section – A (Chapters from 1 – 8).
- ✓ Few Extra Topics are also given in book which are not in Study Material but asked in Exams.
- ✓ Mostly All the Examples studied in class, are covered in Book.
- ✓ Complete Content is amended & All the classes are Latest recordings.
- ✓ Future amendments will be notified on Our YouTube Channel “MOHIT BANSAL CLASSES – CMA, CA & CS”.
- ✓ This is 1st Volume which cover content of 50 marks – Cost Audit.
- ✓ Other Volume cover Section – B, C & D.
- ✓ After the end of each chapter, Questions are given for revision.
- ✓ MCQs are given in Volume 2 at the end.

IMPORTANT THINGS ABOUT “CLASSES”

- ✓ All the Classes are Latest recordings.
- ✓ Complete Study Material is followed.
- ✓ Few Extra Topics (which are not in Study Material) are also covered in classes as they are asked in exams many times.
- ✓ Mostly all the Topics are explained with examples and all examples are given in Book.
- ✓ After covering all the classes and Studying Books, no need to refer ICMAI Module.

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&
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SOME OF OUR PROUD ACHIEVERS



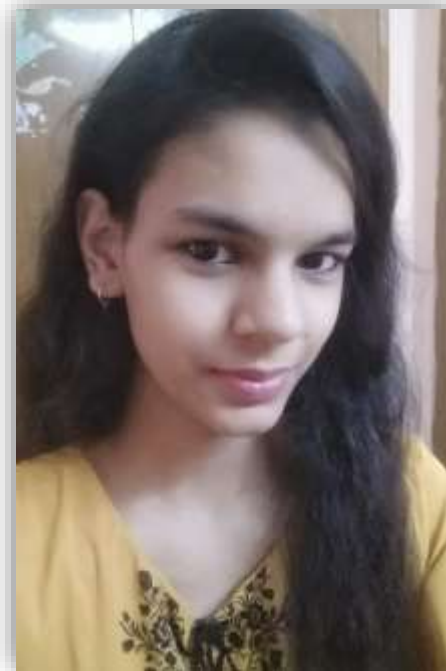
CMA NISHA GUPTA
AIR - 20



CMA JEETESH KUMAR SAIN
YOUNGEST CMA



CMA Abhishek Jain
CMA INTER – AIR 30.
CMA FINAL – AIR 10.
CS – AIR 5.



**GAURANSHI
CHATURVEDI**
AIR - 39



PRATIMA KUMARI
AIR - 48



Sunil Jain
81 Marks in
SPM&BV



Rahul Lokwani
73 Marks in
SPM&BV



One of the highest marks in Mohit Sir's subject



One of the highest marks in Mohit Sir's subject



One of the highest marks in Mohit Sir's subject



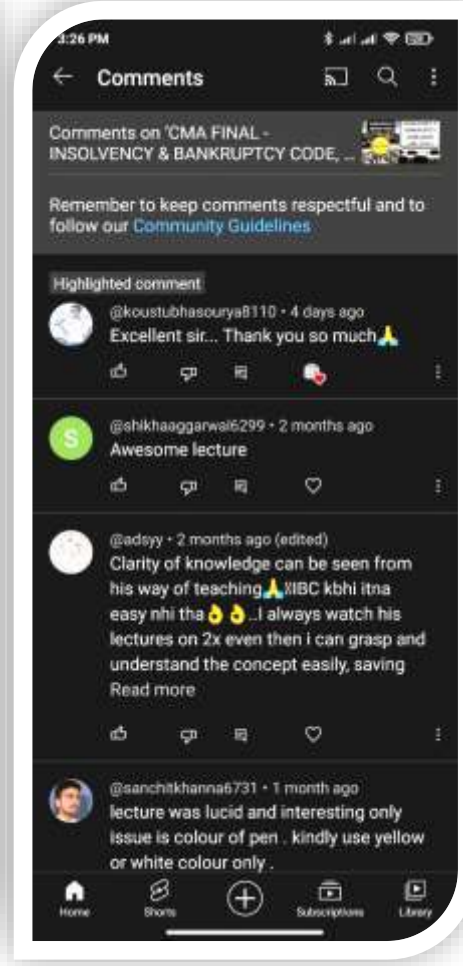
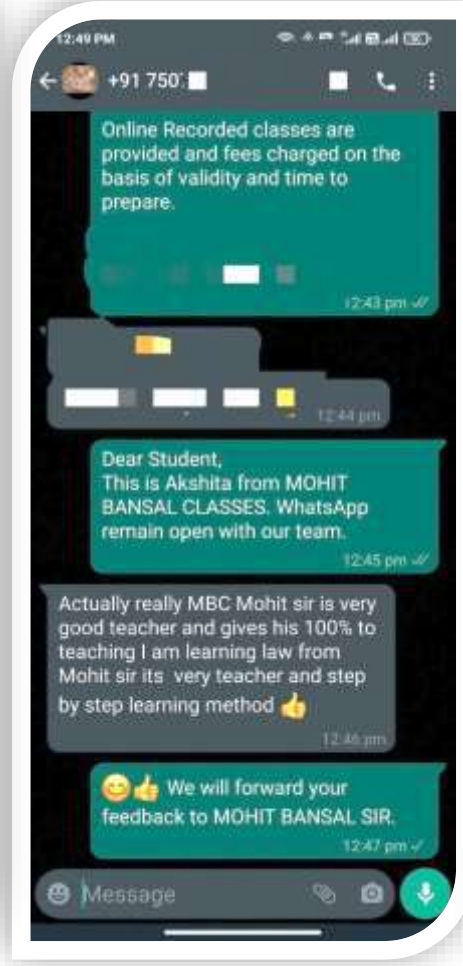
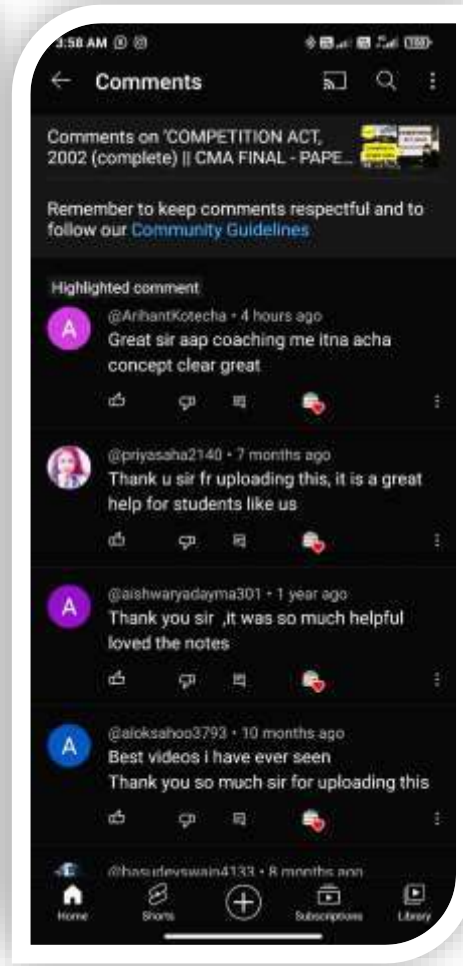
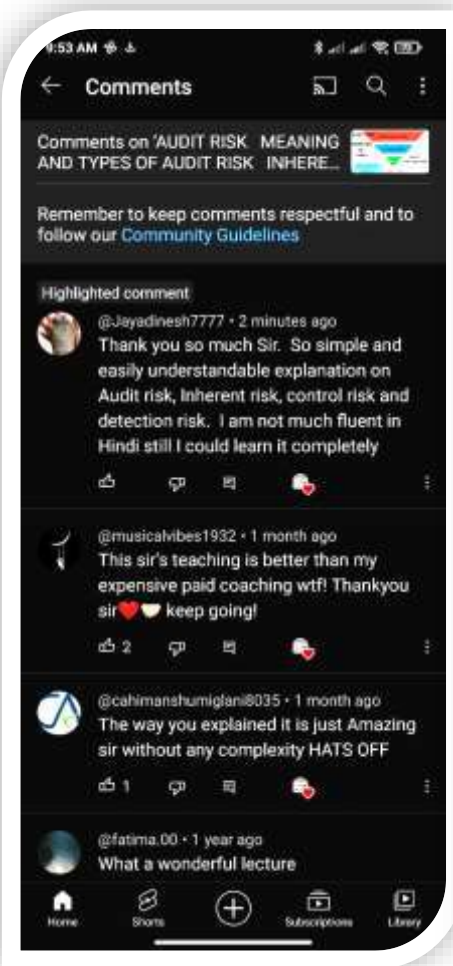

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Krishna Saini
83 Marks in LAW



Poonam Agarwal
87 Marks in CMAD

Student's Feedback



Student's Feedback



📌 Pinned by Mohit Bansal Classes - CMA, CA & CS

@deepshikhahada8872 1 year ago

Thankyou so much 😊 These lectures are very helpful for usapke smjhne ka tarika best h sir 🙌

👍 2 🗨️ 💬 Reply



@dristinagdev7796 1 year ago

Sir your lecture is best. Perfect conceptual clarity. And examples are mind blowing. While explaining your presence of mind is great! Thank you so much. Sir! ❤️❤️

👍 2 🗨️ 💬 Reply



@AshishGupta-fy4rz 1 year ago

Great teacher..... awesome explanation, thank you very much sir ji 🙏🙏

👍 1 🗨️ 💬 Reply



@swatidumbey9696 1 year ago

Best marathon I have ever seen thank you so much sir ❤️🙏

👍 1 🗨️ 💬 Reply



@riteshranjan1537 1 year ago (edited)

Management audit 1:15
 Management Auditor 35:00
 Management audit in different Functions 1:35:00
 Evaluation 2:44:00

👍 2 🗨️ 💬 Reply



@sahilbisht2888 1 year ago

Highly recommended, thank you sir 💜

👍 🗨️ 💬 Reply

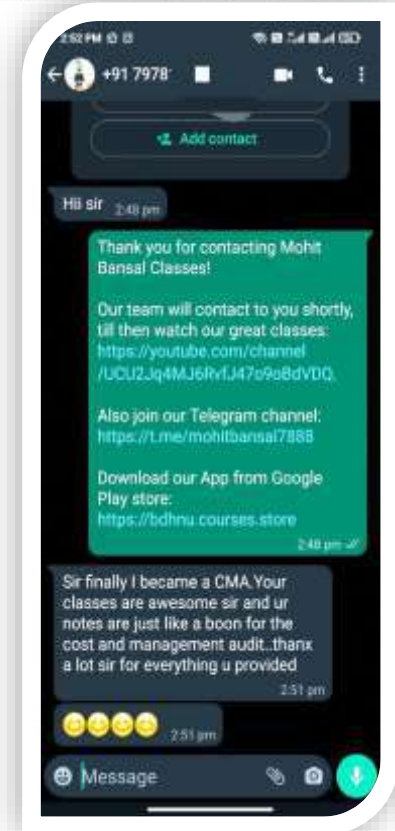
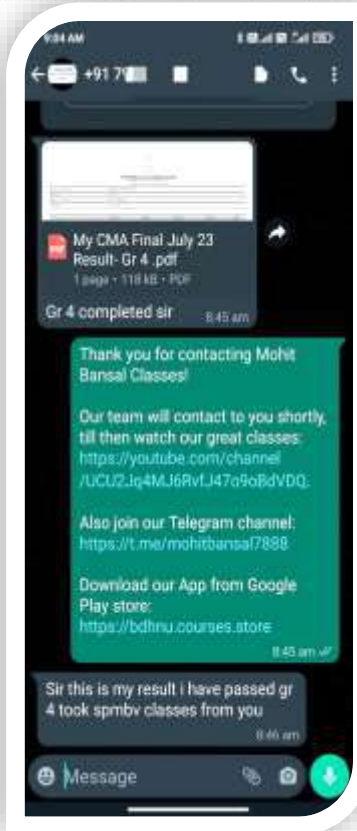


@ayushraj4548 1 year ago

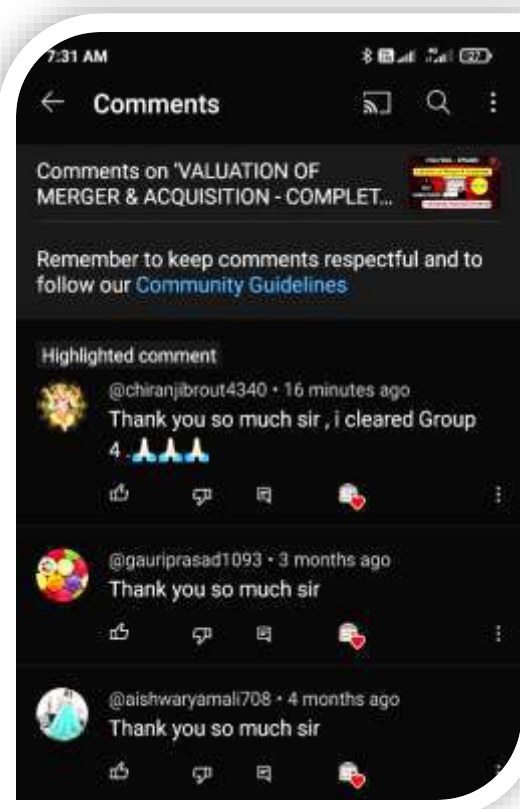
Initially I took this marathon easily but after watching this I came to the conclusion that ur way of teaching is quite outstanding and it really differentiate u from others

Hat's 🧢

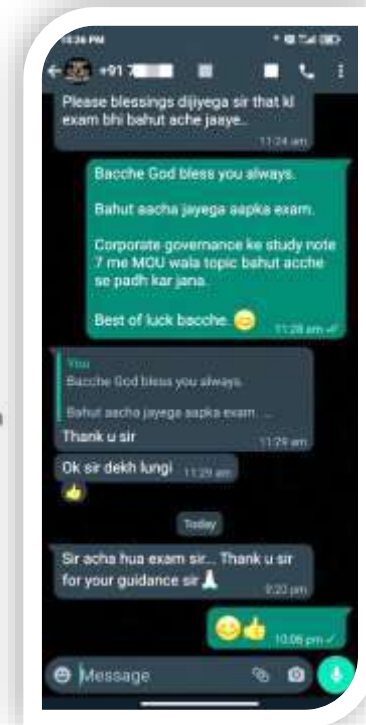
👍 2 🗨️ 💬 Reply



Student's Feedback



- Add a comment...
- @musicalvibes1932 5 months ago
This sir's teaching is better than my expensive paid coaching wtf! Thankyou sir ❤️👍 keep going!
5 👍 1 🗨️ 1 ❤️ Reply
1 reply
- @cahimanshumiglani8035 5 months ago
The way you explained it is just Amazing sir without any complexity HATS OFF
2 👍 1 🗨️ 1 ❤️ Reply
- @Jayadinesh7777 4 months ago
Thank you so much Sir. So simple and easily understandable explanation on Audit risk, Inherent risk, control risk and detection risk. I am not much fluent in Hindi still I could learn it completely
1 👍 1 🗨️ 1 ❤️ Reply
- @cutebaby3194 1 year ago
unique way of teaching 😊
2 👍 1 🗨️ 1 ❤️ Reply
- @fatima.00 1 year ago
What a wonderful lecture
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- @nayandorkhande451 1 month ago
Great work sir 😊 The Way you explained the concept is Awesome 😊 I m CA inter Student...though
1 👍 1 🗨️ Reply
- @lifeofsaadkhan7550 1 year ago
Best lecture. THANKYOU
1 👍 1 🗨️ Reply
- @abuomamahil9450 1 year ago
Excellent teaching.thnx



Student's Feedback

@Priyankapatel-nr3up 1 month ago
Your YouTube classes helped me score 52 in exams. Thank you so much sir ❤️

👍 🗨️ 📧 Reply

@learnndfun2 5 months ago (edited)
Clarity of knowledge can be seen from his way of teaching 🙌🏻👉 IBC kbhi itna easy nhi tha 🏻🏻...I always watch his lectures on 2x even then i can grasp and understand the concept easily, saving time simultaneously 😊

👍 🗨️ Reply

@shikhaaggarwal6299 5 months ago
Awesome lecture

👍 🗨️ Reply

@soumyaranjannayak8047 1 year ago
Thank u sir it's very helpful for me 🙌🏻

👍 1 🗨️ 📧 Reply

@koustubhasourya8110 3 months ago
Excellent sir... Thank you so much 🙌🏻

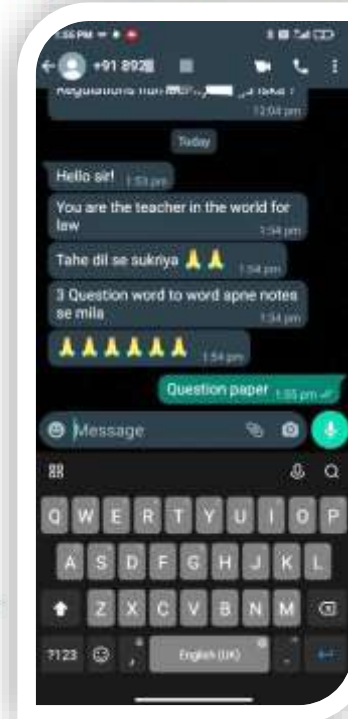
👍 🗨️ 📧 Reply

@devrathuniyal 8 months ago
Majaa aa gaya pora lecture sun kar... IBC has become so easy to understand... DRT ka video please

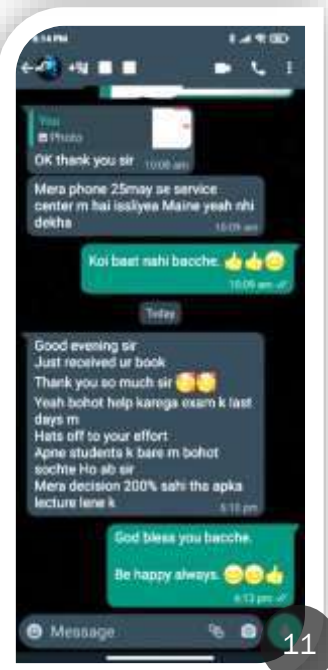
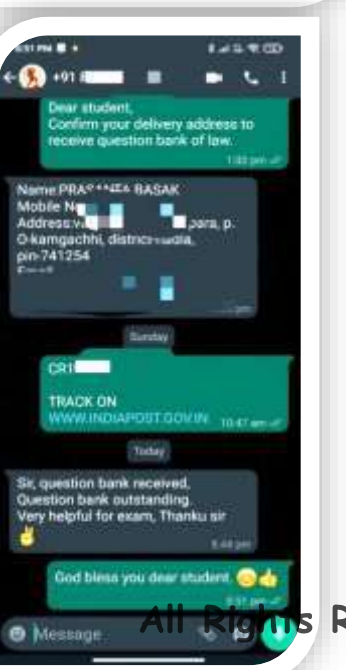
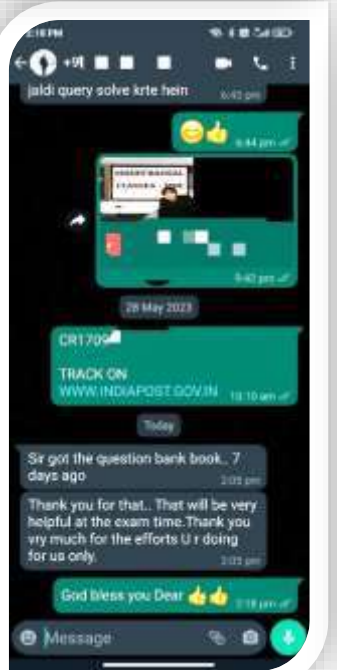
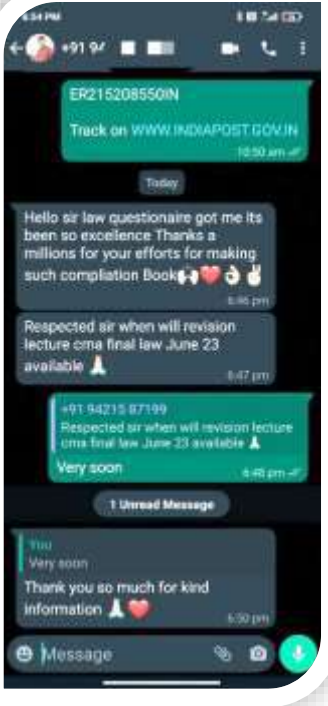
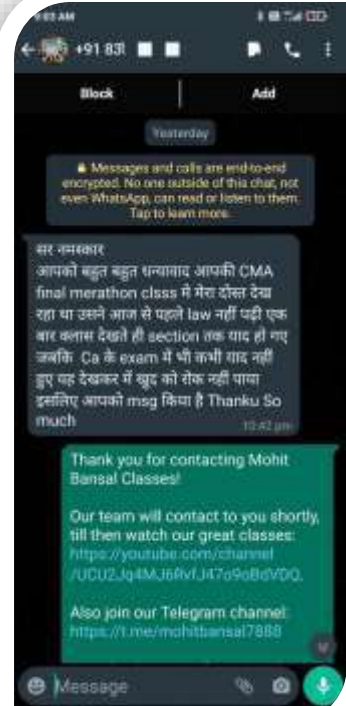
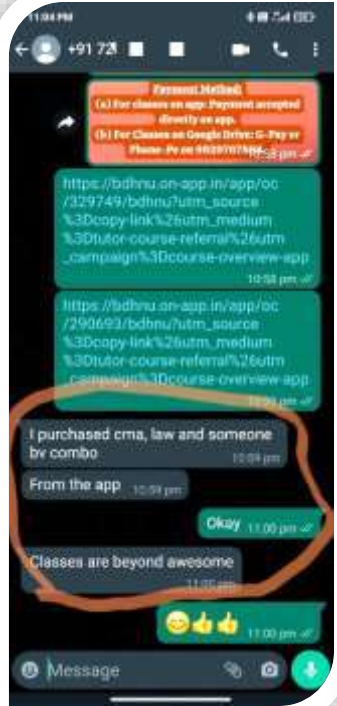
👍 🗨️ 📧 Reply

@sanchitkhanna6731 4 months ago
lecture was lucid and interesting only issue is colour of pen . kindly use yellow or white colour only .

👍 1 🗨️ Reply



Student's Feedback



ABOUT THE AUTHOR

**MOHIT
BANSAL
SIR**



1. MOHIT BANSAL SIR, has experience of 15 years in teaching.
2. More than 21,000 Students have been taught by him.
3. Continuously 7 times his students has scored all India Highest marks in his subjects.
4. He also has published many books in the same field.
5. He has been awarded as Best Faculty for more than 11 times.
6. Youngest CMA of INDIA “MR. JITESH SAIN” was student of MOHIT BANSAL SIR only.
7. And many of his students of CMA has scored AIR, like: Abhishek Jain, Deeksha Kedawat, Jitesh, Bharti, Anuj, Chirag, Nishi, Karishma, Nisha, Balwanti, Dakshita, Kajal, Dhanmendra & many more.
8. Mohit Bansal Sir is running his YouTube channel in the name of “**MOHIT BANSAL CLASSES – CMA, CA & CS**”.



Mohit_bansal7888



MOHITBANSAL888



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CHAPTER - 1 : BASICS OF COST AUDIT

Q.1: What is Cost Audit and why is it conducted?

Ans.:

- A. Tax is applicable to income of every Company.
- B. To lower down taxes, company deduct amount of cost out of income.
- C. Cost occur in Manufacturing and Producing Companies.
- D. Hence, Company maintain its cost accounts for every Financial Year.
- E. And, to check that amounts of costs mentioned in Cost Accounts are true and prepared in fair manner after fulfilling all the required rules and regulations and standards of cost accounting.
- F. Cost Audit is an independent examination of cost statements, cost records and other related information of an entity.

Q.2: What is cost accounting?

Ans.:

- A. Cost Accounting is a process of identification, classification, measurement, and assignment of costs to various cost objects.
- B. Preparation & Presentation of cost records and cost statements is the responsibility of the Management.

NOTE:

1. Practices, procedures and principles relating to cost accounting are covered in the Cost Accounting Standards;
2. And practices, procedures and requirements relating to cost auditing are covered in the Standards on Cost Auditing.
3. Standards on Cost Auditing are the best guide for the cost auditors.

EXAMPLE:



Nora Didi

Mohit Sir, ye Cost Audit kya hota hai?

Nora Ji lambi kahani hai, dhyan se suno:

- ✓ Dekho Har company incorporate hoti hai ek object ke saath, jo hai jyada se jyada profit earn karna.
- ✓ Ab Company bahut mehnat karke profit earn karti hai but Govt. tax impose kar deti hai.
- ✓ Toh company apna tax save karne ke liye, jyada se jyada cost show karna chahti hai.
- ✓ Company wrong cost show karti hai and illegally bhi cost ko badha Chadha kar show karti hai.
- ✓ Isliye company ke bahar se ek Practising CMA bulaya jata hai, jo ki company ke accounts ko check karta hai and ensure karta hai ki company ne illegally cost increase nahi kari ho tax save karne ke liye.



MBS



Mohit Sir, ye Cost Accounting kya hota hai?

- ✓ Company me jo bhi transaction hota hai, uski entry company ke accounts me karni hoti hai.
- ✓ Ye kaam hota hai company ke andar appointed CMA ka jo ki full time employment me hota hai.
- ✓ Is process ko Cost Accounting bola jata hai.



GoArt

EXAMPLE:



Nora Didi

Mohit Sir, Cost Accounting & Auditing ke methods, rules, regulatinos, etc. kahan par likhe hue hain?

Cost Accounting ke liye Cost Accounting Standards follow karne chaiye.
Cost Auditing ke liye Cost Auditing Standards follow karne chaiye.



MBS

History of The Institute of Cost accountants of India (ICWAI)

- **1944:** Institute of Cost & Works Accountants of India was established under the Companies Act 1913, as a Limited company.
- **1959:** The Institute of Cost and Works Accountants of India (ICWAI) was established under Cost & Works Accountants Act, 1959.
- **2012:** The Institute of Cost and Works Accountants of India (ICWAI) was renamed as “The Institute of Cost Accountants of India”.

GENESIS OF COST AUDIT

- In India, methods and techniques of cost accounting and audit of cost accounts can be traced back to pre independence era when a large number of firms were given contracts by the Government of India on cost plus basis.
- The Government then started verifying and investigating into the cost structure of such firms.
- This trend continued on a large scale during World War II that led to the recognition of cost as a distinct concept not only in India but also in the industrial economies of the world.
- A phenomenon of cost consciousness started taking shape in the country and the Institute of Cost and Works Accountants of India was set up in 1944 with the objectives of promoting, regulating, and developing the profession of cost accountancy in the country.
- The Institute of Cost and Works Accountants of India (now The Institute of Cost Accountants of India) was later incorporated as a statutory body by an Act of Parliament in 1959.
- In the mid-fifties, famous case of corporate frauds in Dalmia-Jain companies virtually jolted the then Government.
- It resulted in the Government appointing Vivian Bose Commission and later the Dutta Commission and Daphtary Sastri Committee.
- Thus, Cost Audit as a unique feature of corporate management in India, emerged.

HISTORY OF COST AUDIT

- **1965:** Cost Audit was first introduced in India with the introduction of Sec. 233B of Companies Act, 1956 for Cost Audit and Sec. 209 (1) (d) for maintenance of Cost Records.
- **1965-2008:** 44 industries covered under cost record maintenance & cost audit on a company specific basics.

- 2008: Expert Group set up to study the existing system of maintenance of cost accounting records and audit thereof.
- 2009: Expert Group submitted its report to the Central Government.
- 2011: Introduction of mandatory Cost Audit of Cost Records maintained by the Companies under Companies Act 1956 for Manufacturing, Mining and processing operations depending on limits of Turnover and Limits of Net Worth and issue of Compliance Certificate by the Cost Accountants.
- 2014: New Companies (Cost Records and Audit Rules), 2014 issued under Companies Act, 2013.

COST AUDIT U/S 148 OF COMPANIES ACT, 2013

- ❖ **Meaning:** It means Auditing of cost records by a cost accountant (CMA in practice).
- ❖ **Applicability of maintaining cost records:** If aggregate turnover of Company (whether Regulated sector i.e. TYPE A or Unregulated sector i.e. TYPE B) in immediately preceding Financial Year is minimum ₹35 crores.

NOTE:

1- Type A (Regulated Sector):

- Power,
- Petroleum,
- Drugs,
- Telecommunication,
- Sugar and
- Fertilizer.

HINT TO LEARN: (Mr. A Drugs lekar khet par gaya and bijli wale phone me petrol daalkar sugar ki kheti ki).

2- Type B (Unregulated Sector): Rest all others.

EXAMPLE:



- ✓ MBC Company wants to know about applicability of Maintaining Cost Records in C.F.Y. 2025 - 2026.
- ✓ Aggregate Turnover of Company in P.F.Y. was ₹34 crores.
- ✓ Because aggregate turnover from all products & services in P.F.Y. is less than ₹35 Crores, Hence, MBC Co. need not to maintain its Cost records for the F.Y. 2025 - 2026.

❖ **APPLICABILITY OF COST AUDIT**



Regulated Sector : Type - A

Aggregate Turnover – Minimum ₹50 Crores.

AND

Individual product turnover – Minimum ₹25 crores.

In immediately preceding Financial Year.

Regulated Sector : Type - B

Aggregate Turnover – Minimum ₹100 Crores.

AND

Individual product turnover – Minimum ₹35 crores.

In immediately preceding Financial Year.

PRACTICE QUESTIONS**Q.1:****Details:**

Manufacture 3 products – A,B & C.

C.F.Y.: 2025 - 2026.

Turnover in immediately preceding financial year given below:

A – 20 CRORES.

B – 20 CRORES.

C – 20 CRORES.

PRODUCTS	COST RECORD APPLICABILITY	COST AUDIT APPLICABILITY
A – 20 CRORES.	YES	NO
B – 20 CRORES.		NO
C – 20 CRORES.		NO

Q.2:**Details:**

Manufacture 3 products – A,B & C.

C.F.Y. – 2025 - 2026.

Turnover in immediately preceding financial year given below:

A – 30 CRORES.

B – 35 CRORES.

C – 20 CRORES.



PRODUCTS	COST RECORD APPLICABILITY	COST AUDIT APPLICABILITY
A – 30 CRORES.	YES	YES
B – 35 CRORES.		YES
C – 20 CRORES.		NO

Q.3:



Details:

Manufacture 3 products – A,B & C.

C.F.Y. – 2025 - 2026.

Turnover in immediately preceding financial year given below:

A – 20 CRORES.

B – 40 CRORES.

C – 70 CRORES.

PRODUCTS	COST RECORD APPLICABILITY	COST AUDIT APPLICABILITY
A – 20 CRORES.	YES	NO
B – 40 CRORES.		YES
C – 70 CRORES.		YES

Q.: Who conduct Cost Audit?

Ans.: Cost Accountant in practice who shall be appointed by the Board.

NOTE:

- ✓ Internal Auditor of Company appointed U/S 139, cannot be appointed as cost auditor.
- ✓ Cost Auditing Standards must be followed while conducting cost audit.

OBJECTIVES OF COST AUDIT: Cost Audit has both general and social objectives.

➤ **GENERAL OBJECTIVES:**

- ✓ Verification of cost accounts with a view to ascertaining that these have been properly maintained and compiled according to the cost accounting system followed by the enterprise.
- ✓ Ensuring that prescribed procedures of the cost accounting records rules are duly adhered to.
- ✓ Detection of errors and fraud.
- ✓ Verification of the cost of each “cost unit” and “cost center” to ensure that these have been properly ascertained.
- ✓ Determination of inventory valuation.
- ✓ Facilitating the fixation of prices of goods and services. Periodical reconciliation between cost accounts and financial accounts.
- ✓ Ensuring optimum utilization of human, physical and financial resources of the enterprise.
- ✓ Detection and correction of abnormal loss of material and time.
- ✓ Advising management, on the basis of inter-unit/inter-firm comparison of cost records, as regards the areas where performance calls for improvement.
- ✓ Promoting corporate governance through various operational disclosures to the directors.
- ✓ Helping the entity in matters of Anti Dumping Duty, valuation of cost of production of goods and services, anti-profiteering (e.g. GST), price controls (e.g. Pharma industry in the past), etc.

➤ **SOCIAL OBJECTIVES:**

- ✓ Verifying whether the pricing of the products are justified as per the product and quality are concerned.
- ✓ Removing the disparities, if any, in the pricing of products and/or services. ❖
- ✓ Looking into that no cost based economic imbalance may occur in product and /or services. ❖
- ✓ Facilitating in the global market cost competitiveness of the products.
- ✓ Ensuring the efficient utilization of resources.

EXAMPLE:



Irfan bhai soch raha hun shares me paisa invest karun.

But kis company ke shares me paisa invest karun ye samajh nahi aa raha hai.

Companies ke accounts ko check kar lein, jis company me profit nazar aaye usme invest kar le.



Par irfan bhai aisa bhi toh ho sakta hai ki Company's ne apne accounts ki, Profit and loss ki galat information di hui ho



Toh Akshay bhai company's ki Audit report ko check karo, usme sahi information milegi.



Wo kaun banata hai?



Company ke accounts Company ke andar ke already appointed employees banate hain and chances ho sakte hain ki wo galat information dein.

But un accounts ko check karne ke liye and ensure karne ke liye ki company's ke accounts sahi hai, true and fair information provide karte hain- audit kari jati hai auditor ke through and wo auditor bahar ka person hota hai na ki company ka permanent employee.

UTILITY/ADVANTAGE OF COST AUDIT:

- Cost information enables the organization to structure the cost, understand it and use it for communicating with the stakeholders.
- Costing is an important tool in assessing organizational performance in terms of shareholder and stakeholder value.
- Costing information can be used to appraise actual performance in the context of implemented strategies.

- Good practice in costing should support a range of both regular and non - routine decisions when designing products and services to:
 - ✓ meet customer expectations and profitability targets;
 - ✓ assist in continuous improvements in resources utilisation; and
 - ✓ guide product mix and investment decisions.
- Working from a common data source (or a single set of sources) also helps to ensure that output reports for different audiences are reconcilable with each other.
- Integrating databases and information systems can help to provide useful costing information more efficiently as well as reducing source data manipulation.

ELIGIBILITY CRITERIA FOR THE APPOINTMENT OF A COST AUDITOR – SECTION 141:

Eligibility criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

- ✓ A body corporate. However, a Limited Liability Partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)].
- ✓ An officer or employee of the Company. [Section 141(3)(b)].
- ✓ A person who is a partner, or who is in the employment of an officer or employee of the company. [Section 141(3)(c)].

EXAMPLE:

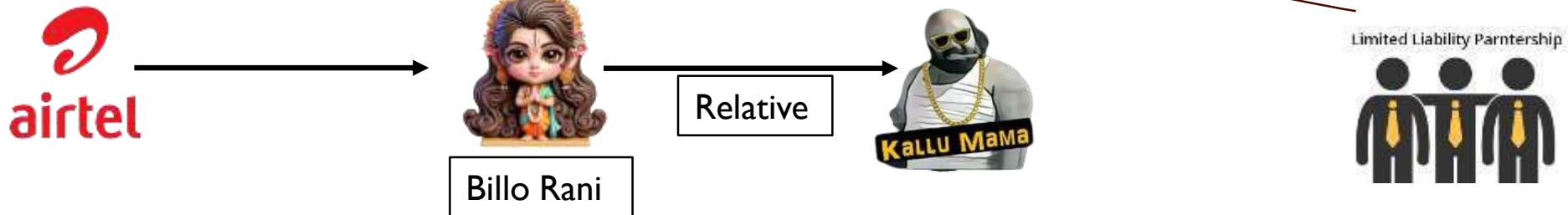


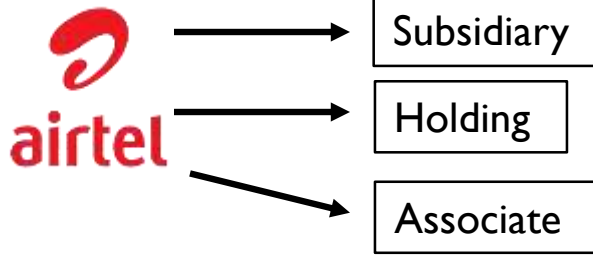
Conclusion:

- ✓ John Abraham cannot be appointed as Cost Auditor of MBC because he is employee.
- ✓ Dhoom LLP cannot be appointed as Cost Auditor of MBC because John (Employee) is partner of Dhoom.

✓ A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary company or a subsidiary of such holding company. [Section 141(3)(d)(i)].

EXAMPLE:





Billo Rani or her relative (Kallu mama), LLP firm (Partner) any one hold security Either in Airtel or its Subsidiary or Holding or Associate.

Conclusion:

Billo Rani cannot be appointed as Cost Auditor in Company.

- ✓ Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding ₹1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014]

EXAMPLE:



- Baazigar is a LLP firm.
- It hold Shares of Airtel Co. of ₹1.5 Lakhs.
- 3 Partners in this LLP Firm: SRK, Shilpa Shetty & Kajol.

Tanisha wants to get appoint as Cost Auditor in Airtel Co.



Conclusion:

Tanisha cannot be appointed as Cost Auditor in Airtel because she is relative of Kajol who is partner of such LLP who holds shares of more than ₹1,00,000 in Airtel.

- ✓ A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding ₹5 lakhs. [Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014].

EXAMPLE:



- Mama Thakur has taken loan of ₹9.5 Lakhs from Reliance Jio Co.
- Now, he wants to get appointed as Cost Auditor in Reliance Ind. Ltd.



Conclusion:

He cannot get appointed because Reliance Jio is subsidiary of RIL & Mama Thakur is indebted to the Reliance Jio.

- ✓ A person who has given any guarantee or provided any security in connection with the indebtedness of any 3rd person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for an amount exceeding ₹ 1 Lakh.

EXAMPLE:



Apun ko 2 lakhs Rs. ka loan maangta hai.

Kisi ki guarantee ya security rakhwa do.



Main deta hun 2 lakhs ki security nawaz bhai ke liye.

Mujhe aapki Banking Co. me Auditor banna hai.



Conclusion:

Sir, aap hamari co. me Auditor nahi ban sakte.

Because aapke relative ne (Sohail) guarantee di hui 1 lakh se jyada ki hai kisi or ke liye (nawaz).

- ✓ A person or a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. [Section 141(3)(e) and Rule 10(4) of Companies (Audit and Auditors) Rules, 2014].
- ✓ A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)].
- ✓ A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as an **auditor of more than 20 companies**. [Section 141(3)(g)].
- ✓ A person who has been convicted by a court for an offence involving fraud and a period of **10 years** has not elapsed from the **date of such conviction**. [Section 141(3)(h)].
- ✓ Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in providing specialised services to the company or its subsidiary companies as below [Section 141(3)(i) and Section 144]:
 - Accounting and book keeping services
 - Internal audit
 - Design and implementation of any financial information system
 - Actuarial services
 - Investment advisory services
 - Investment banking services
 - Rendering of outsourced financial services
 - Management services.

PRACTICE QUESTIONS

Multiple Choice Questions:

- Cost Audit was first introduced in the year _____.
 - A. 1959
 - B. 1965
 - C. 1949
 - D. 1975

- Cost Audit was first introduced for _____ industry.
 - A. Cement
 - B. Iron & Steel
 - C. Jute
 - D. Sugar

- Govt. of India has issued order with respect to introduction of mandatory Cost Audit of Cost Records maintained by the Companies in the year _____.
 - A. 2008
 - B. 2009
 - C. 2011
 - D. 2014

- The report on the audit of cost records is submitted by the cost auditor to _____.
 - A. Managing Director

- B. Finance Director
- C. Audit Committee
- D. Board of Directors

▪ The cost auditor of the company who is in default in compliance with section 148 shall be punishable in the manner as provided in _____.

- A. Section 139 of Companies Act, 2013
- B. Sub-Sections (1) to (3) of section 148 of Companies Act, 2013
- C. Section 143 of Companies Act, 2013
- D. Sub-Sections (2) to (5) of section 147 of Companies Act, 2013

Answers:

1	B. 1965
2	A. Cement
3	C. 2011
4	D. Board of Directors
5	D. Sub-sections (2) to (5) of section 147 of Companies Act, 2013

STATE TRUE OR FALSE

1. The Defense contract during the World war-II were mostly given based on Cost Plus 15% margin basis.
2. The Institute of Cost and Works Accountants of India was set up in 1944 with the objectives of determining cost of production.

3. A company shall submit cost audit report to the Central Government within thirty days from the date of signing of the same.
4. Cost Accounting Standards has formulated by Cost Auditing and Assurance Standards Board.
5. The auditor conducting the cost audit shall comply with the Cost Accounting Standards.

Answers:

1	(False) - The Defence contract during the World War-II were mostly given based on Cost Plus margin basis.
2	(False) - The Institute of Cost and Works Accountants of India was set up in 1944 with the objectives of promoting, regulating, and developing the profession of cost accountancy in the country.
3	(False) - A company shall submit cost audit report to the Central Government within thirty days from the date of received of the same.
4	(False) - Cost Accounting Standards has formulated by Cost Accounting Standards Board.
5	(False) - The auditor conducting the cost audit shall comply with the Cost Auditing Standards.

FILL IN THE BLANKS

1. The Institute of Cost Accountants of India was set up in the year _____.
2. The Cost Accounting system was initially developed based on recommendation of _____ Commission.
3. The company and every officer of the company who is in default in compliance with Section 148 shall be punishable under Sub-section _____ of Section _____ .

4. The Institute of Cost and Works Accountants of India (ICWAI) was renamed as “The Institute of Cost Accountants of India” in the year _____.

Answers:

1	1944
2	Vivian Bose.
3	Sub-section (1) of Section 147
4	2012

STUDY NOTE - 2 : COMPANIES (COST RECORDS AND AUDIT) RULES, 2014

Applicability of maintaining cost records: If aggregate turnover of Company (whether Regulated sector i.e. TYPE A or Unregulated sector i.e. TYPE B) in immediately preceding Financial Year is minimum ₹ 35 crores.

NOTE:

1. Cost Records are maintained in Form No. CRA-1.
2. However, foreign companies having only vision office in India and (Small & micro enterprises) are exempted to maintain cost accounting records.

APPLICABILITY OF COST AUDIT



Regulated Sector : Type - A

Aggregate Turnover – Minimum ₹50 Crores.

AND

Individual product turnover – Minimum ₹25 crores.

In immediately preceding Financial Year.

Unregulated Sector: Type - B

Aggregate Turnover – Minimum ₹100 Crores.

AND

Individual product turnover – Minimum ₹35 crores.

In immediately preceding Financial Year.

1: Type A (Regulated Sector):

- (a) Power,
- (b) Petroleum,
- (c) Drugs,
- (d) Telecommunication,
- (e) Sugar, And
- (f) Fertilizer.

2: Type B (Unregulated Sector): Rest all others.

PREVIOUS YEAR QUESTIONS:

- Healthcare Equipment Limited is engaged mainly in the production of Cardiac stents, Catheters, Pacemakers and Intraocular Lenses. State Below whether maintenance of Cost Records is applicable if the Company fulfills turnover criteria and is:
 - i. A Foreign Company having registered officer at Mumbai.
 - ii. A Company classified as a Micro Enterprise.
 - iii. A Foreign company having only liaison offices at Delhi & Mumbai.
 - iv. A Domestic Company whose average turnover of ₹40 crores for last 2 years has dropped to ₹24 crores in FY 2018 – 19.

- Machinery used in Defense, Space and Atomic Energy Sector and fulfilling turnover criteria is under:
 - i. Regulated Sector;
 - ii. Unregulated Sector;
 - iii. Exempted by different statute;
 - iv. Not applicable category.

- What is the applicability of Real Estate Development under the Companies (Cost Records and Audit) Rules, 2014?

- Is maintenance of Cost Accounting Records mandatory for a Multi – Product company where all the products are not covered under the Rules, even if the turnover of the individual products, which are covered under the Rules, is less than ₹ 35 crores?

COST AUDIT IS NOT APPLICABLE IN FOLLOWING CASES:

- ✓ If Operating from SEZ (Special Economic Zone).
- ✓ If revenue from Export (Foreign Exchange) is more than 75% of total revenue.
- ✓ Products manufactured for captive consumption (Whether Regulated sector i.e. TYPE A or Unregulated sector i.e. TYPE B)

EXAMPLE:



- Manufacture 3 products – A,B & C.
- C.F.Y. – 2022-2023.
- Turnover in immediately preceding financial year given below:
 - i. A: ₹20 CRORES.
 - ii. B: ₹40 CRORES.
 - iii. C: ₹70 CRORES.

NOTE: ₹ 100 crores were earned from Foreign Exchange.

PRODUCTS	COST RECORD APPLICABILITY	COST AUDIT APPLICABILITY
A – 20 CRORES.	YES	No
B – 40 CRORES.		No
C – 70 CRORES.		No

PREVIOUS YEAR QUESTIONS:

- A Company has units in SEZ and in Non – SEZ areas. What would be the applicability of the Companies (Cost Records and Audit) Rules, 2014 on such a Company with respect to maintenance of Cost Accounting Records and Cost Audit?

- A Company meets the threshold limits for both maintenance of Cost Records and Cost Audit in 2015 – 2016 and, consequently, comes under the purview of the Rules in the year 2016 – 17. If the turnover of the Company gets reduced to lower than the prescribed threshold limit in 2016 – 17, state whether the rules relating to Cost Records and Cost Audit will be applicable for the year 2017 – 18?

- What would be the treatment of Cost of consumption of electricity from a captive generating plant and the applicability of Cost Audit to such captive generating plants?

- A Company, engaged in construction business, is covered under the Companies (Cost Records and Audit) Rules, 2014 but does not include
 - a. Outsourcing by a Sub – Contracting Company.
 - b. A Company working on BOT (Build, Operate, Transfer) mode.
 - c. A Company working in a Special Economic Zone.
 - d. A Project undertaken as EPC (Engineering, Procurement & Construction) Contract.

APPOINTMENT OF COST AUDITOR – SECTION 148 & RELATED PROVISIONS – RULE 6:

- ✓ Cost Auditor is appointed by BOD's in Board Meeting by Board Resolution.
- ✓ Appointment must be done within 180 days from commencement of Financial Year.
- ✓ Concerned Cost Auditor must be informed by Company about appointment.
- ✓ Company shall inform about this appointment to Central Government in CRA – 2 within:
 - 180 days from commencement of Financial Year;

OR

 - 30 days from that Board Meeting in which appointment is made

WHICHEVER IS EARLIER.

EXAMPLE:



- F.Y. 2025 - 2026.
- **Case 1:** Held Board Meeting on 15th April and appointed a cost Auditor.
- **Case 2:** Held Board Meeting on 15th Oct.

When Co. shall inform about Cost Audit Report to Central Government?

Conclusion:

Company shall inform about this appointment to Central Government within:

- 180 days from commencement of Financial Year (30th Sep.);

OR

- **Case 1:** 30 days from that Board Meeting in which appointment is made (15th May)
- **Case 2:** 30 days from that Board Meeting in which appointment is made (15th Nov.)

WHICHEVER IS EARLIER

Case 1: 15th May. **Case 2:** 30th Sep.

Q.1: Till when Cost Audit Report must be submitted?

Ans.: Cost Audit Report is submitted in following sequence:

By Cost Auditor



To BOD's within 180 days from end of F.Y. in Form No. CRA – 3



Than by Company



To Central Government within 30 days from receipt of Cost Audit Report, in Form No. CRA - 4.

PREVIOUS YEAR QUESTIONS:

Q.: In which CRA form, Cost Audit Report of a Company filed with the Central Government?

- a. CRA – 4
- b. CRA – 3
- c. CRA – 1
- d. CRA – 2.

Q.2: Till when Cost Auditor remain appointed or must hold office?

Ans.: Till 180 days from Financial Year OR till submission of Report – Whichever is earlier.

PREVIOUS YEAR QUESTIONS:

Q.: BORS & CO. a firm of Cost Accountants was appointed as Cost Auditor of PANTEX LTD on 31/07/2018 for auditing the cost records for the FY 2018 – 2019. The Auditor appointed as such shall continue in such capacity upto

- a. 31/07/2019, on expiry of 1 year of appointment.
- b. 30/09/2019, on expiry of 6 months from close of accounts.
- c. 30/08/2019, date of submission date of Cost Audit Report.
- d. 15/09/2019, date of holding Annual General Meeting of PANTEX LTD.

Q. 3: How to fill Casual Vacancy of Auditor?

Ans.:

- Casual Vacancy shall be filled by BOD's within 30 days.
- And it must be intimated to Central Government in Form No. CRA - 2 within 30 days.

Q.4: Before submission to the Auditor for Report, the Form CRA 3 should be signed by whom?

Ans.: Company Secretary and a Director authorized by the Board before submission to the Auditor for Report.

SUMMARY OF FORMS:

- ✓ CRA - 1: Forms in which cost records shall be maintained.
- ✓ CRA - 2: Form of intimation of appointment of cost auditor by the company to Central Government.
- ✓ CRA - 3: Form of Cost Audit Report.
- ✓ CRA - 4: Form for filing Cost Audit Report with the Central Government.

PREVIOUS YEAR QUESTION:

Q.: Before submission to the Auditor for Report, the Form CRA – 3 should be signed by

- a. The Secretary and the Chief Finance Officer of the Company.
- b. The Secretary and the Cost Accounts Officer of the Company.
- c. The Secretary and 1 Director of the Company.
- d. The Chief Finance Officer and the Managing Director of the Company.

CERTIFICATE BY AUDITOR: The Cost Auditor appointed shall submit a certificate that:

- a. The individual or the firm, as the case may be, is eligible for appointment.
- b. The individual or the firm, as the case may be, satisfies the criteria provided in Section 141 of the Act.
- c. The proposed appointment is within the limits laid down by or under the authority of the Act; and
- d. The list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.”

PREVIOUS YEAR QUESTION:

Q.: While accepting the offer of appointment as Cost Auditor of a Company, what certificate should be submitted by the Cost Auditor to the Company? Is the Cost Auditor required to give any certificate with respect to his/her/its dependence and arm length relationship with the appointing company?

BOOKS OF ACCOUNTS: Section 2(13) of Companies Act, 2013 states that: “Books of Accounts” includes records maintained in respect of-

- I. All sums of money received and expended by a company and matters in relation to which receipts and expenditure take place;
- II. All Sales and Purchases of Goods and Services by the Company.
- III. The assets and liabilities of the company; And
- IV. The items of cost as may be prescribed under section 148 in the case of company which belongs to any class of companies specified under that Section.

NOTE: Cost Records are part of Books of accounts.

PREVIOUS YEAR QUESTION:

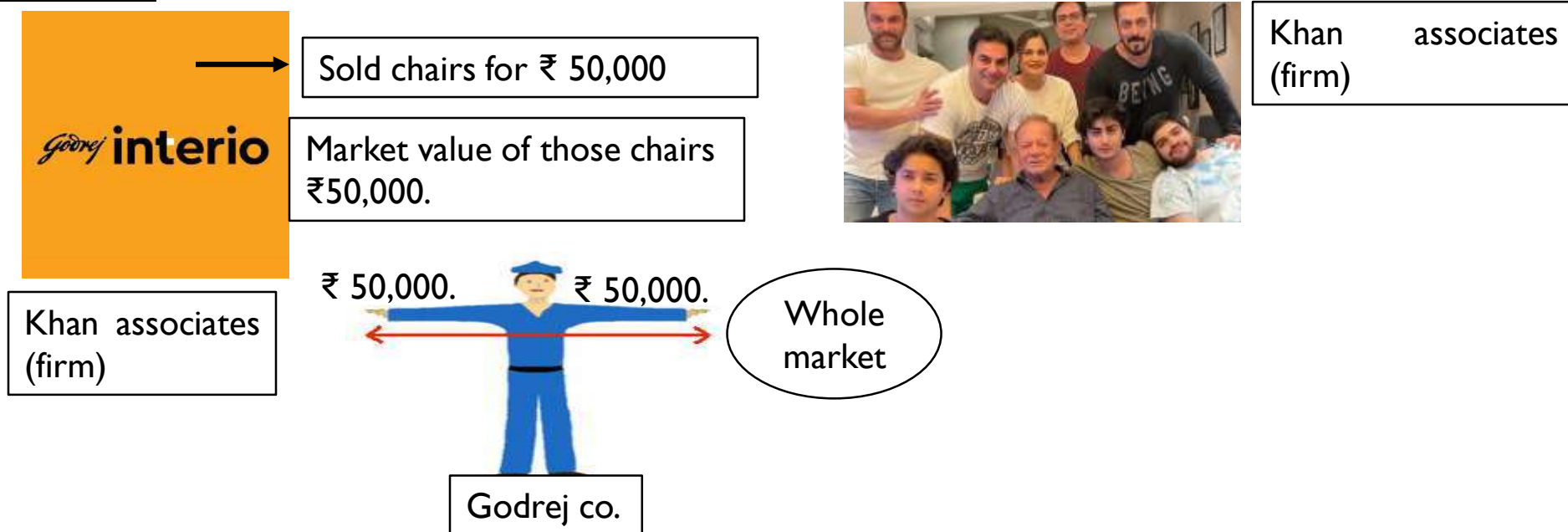
Q.: What are “Books of Accounts” as per the Companies Act, 2013? Do “Cost Records” become part of Books of Accounts?

RELATED PARTY TRANSACTIONS:

- (a) Related Party means related party as defined sub-section 76 of Section 2 of the Companies Act, 2013 (18 of 2013).
- (b) “Normal” price means

- i. Price charged for comparable and similar products 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.
- ii. Normal price can be construed to be a price at which two unrelated and non-desperate parties would agree to a transaction and where such transaction is not clouded due to the proximity of the parties to the transaction and free from influence though the parties may have shared interest.

EXAMPLE:



<p>CRA-1: Forms in which cost records shall be maintained</p>	<p>The form CRA-1 prescribes the form in which cost records shall be maintained. The form categorises the requirement of maintaining proper details as per 30 headings. The headings are as follows: (1) Material Cost, (2) Employee Cost, (3) Utilities, (4) Direct Expenses, (5) Repair and Maintenance, (6) Fixed Assets and Depreciation, (7) Overheads, (8) Administrative Overheads, (9) Transportation Cost, (10) Royalty and Technical Know-how, (11) Research and Development expenses, (12) Quality Control Expenses, (13) Pollution Control Expenses, (14) Service Department Expenses, (15) Packing Expenses, (16) Finance Costs, (17) Any other item of Cost, (18) Capacity Determination, (19) Work-in-progress and finished stock, (20) Captive Consumption, (21) By-Products and Joint Products, (22) Adjustment of Cost Variances, (23) Reconciliation of Cost and Financial Accounts, (24) Related Party Transactions, (25) Expenses or Incentives on Exports, (26) Production records, (27) Sales records, (28) Cost Statements, (29) Statistical Records, (30) Records of Physical Verification, (31) Unit of Measurement (UoM).</p>
<p>[Pursuant to rule 5(1)]</p>	

IMPORTANT NOTE: The basis adopted to determine Normal price should be classified as under:

- Comparable uncontrolled price method;
- Resale price method;
- Cost plus method;
- Profit split method;
- Transactional net margin method; or
- Any other method, to be specified.

PREVIOUS YEAR QUESTION:

Q.: What is the basis adopted to determine normal price with respect to related party transactions?

Annexure to Cost Audit Report: Annexure has been reclassified into four parts as under:

Part-A

- General Information,
- General Details of Cost Auditors,
- Cost Accounting Policy,
- Product/Service Details –for the company as a whole.

Part-B :

- For Manufacturing Sector Quantitative Information,
- Details of Materials Consumed,
- Details of Utilities Consumed,

IMPORTANT NOTE: The basis adopted to determine Normal price should be classified as under:

- Comparable uncontrolled price method;
- Resale price method;
- Cost plus method;
- Profit split method;
- Transactional net margin method; or
- Any other method, to be specified.

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Part-A

- General Information,
- General Details of Cost Auditors,
- Cost Accounting Policy,
- Product/Service Details –for the company as a whole.

Part-B :

- For Manufacturing Sector Quantitative Information,
- Details of Materials Consumed,
- Details of Utilities Consumed,

- Details of Materials Consumed,
- Details of Utilities Consumed,
- Details of Industry Specific Operating Expenses.

Part - C

- For Service Sector Quantitative Information,
- Abridged Cost Statement,
- Details of Materials Consumed,
- Details of Utilities Consumed, Details of Industry Specific Operating Expenses.

Part - D

- Product and Service Profitability Statement,
- Profit Reconciliation,
- Value Addition and Distribution of Earnings,
- Financial Position and Ratio Analysis,
- Related Party Transactions,
- Reconciliation of Indirect taxes.

NOTE: Value Addition and Distribution of Earnings are to be computed based on Audited Financial Data.

**Form CRA - 3 FORM OF THE COST AUDIT REPORT
(GIVEN ON NEXT PAGE)**

Form CRA-3

[Pursuant to rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014]

FORM OF THE COST AUDIT REPORT

I/We, having been appointed as Cost Auditor(s) under sub-section (3) of Section 148 of the Companies Act, 2013 (18 of 2013) of.....(mention name of the company) having its registered office at.....(mention registered office address of the company) (hereinafter referred to as the company), have audited the Cost Records maintained under section 148 of the said Act, in compliance with the cost auditing standards, in respect of the.....[mention name(s) of Product(s)/service(s)] for the period/ year.....(mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2.

1. I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.
2. In my/our opinion, proper cost records, as per rule 5 of the Companies (Cost Records and Audit) Amendment Rules, 2014 have/have not been maintained by the company in respect of product(s)/service(s) under reference.
3. In my/our opinion, proper returns adequate for the purpose of the cost audit have/have not been received from the branches not visited by me/us.
4. In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.
5. In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
6. In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true

and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.

7. Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product /service under reference of the company duly audited and certified by me/us are/are not kept in the company. 2.

2: Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

Dated: this day of 20.....
at (mention name of place of signing this report)

**SIGNATURE AND SEAL OF THE COST AUDITOR(S)
MEMBERSHIP NUMBER(S)**

NOTES:

1. Delete words not applicable.
2. If as a result of the examination of the books of account, the cost auditor desires to point out any material deficiency or give a qualified report, he/she shall indicate the same against the relevant para (i) to (vii) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she has come across.
3. The report, suggestions, observations and conclusions given by the cost auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

NUMERICAL QUESTIONS

Q.1: The following figures are extracted from the statement prepared by the Cost Accountant and the Trial Balance of ABC Ltd., which is a single product company:

(₹ in Lakhs)

	31.03.2018	31.3.2017	31.03.2016
Net Sales	1,745	1,705	1,610
Raw Materials consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Depreciation charged to production cost centres	16	15	13
Factory overheads:			
Salaries and Wages	5	4	3
Depreciation	2	2	2
Rates and Taxes	1	1	1
Other Overheads	6	5	4
Administrative Overheads:			
Salaries and Wages	10	9	8
Rates and Taxes	2	2	2

	31.03.2018	31.3.2017	31.03.2016
Administrative Overheads:			
Other Overheads	162	154	148
Selling and Distribution Overheads:			
Salaries and Wages	7	6	5
Packing and Forwarding	6	6	5
Depreciation	1	1	1
Other Overheads	124	118	108
Interest	85	74	68
Bonus and Gratuity	12	10	9
Gross Current Assets	840	724	640
Current Liabilities and Provisions	324	305	246

You are required to compute the following ratios as per requirement of Part D, Para 3 & 4 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for 3 years:

- I. Operating Profit as percentage of Value Addition.
- II. Value Addition as percentage of Net Sales.

Note: The computation should be based on EBDIT as Operating Profit.

Answer:

	Year Ending (₹ In lakhs)		
	31.03.2018	31.3.2017	31.03.2016
Net Sales (A)	1,745	1,705	1,610

	Year Ending (₹ In lakhs)		
	31.03.2018	31.3.2017	31.03.2016
Cost of Sales excluding depreciation & Interest:			
Raw Material consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Factory overheads (excluding depreciation)	12	10	8
Administrative overheads (excluding depreciation)	174	165	158
Selling and distribution overheads (excluding depreciation)	137	130	118
Bonus and Gratuity	12	10	9
Total (B)	1,546	1,439	1,323
Operating Profit (A) - (B) =	199	266	287

Value addition is defined in Part D, Para 3 & 4 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 as “the difference between the net output value (Net Sales) and cost of bought out materials and services for the product under reference”.

The working will be:

	Year Ending (₹ In lakhs)		
	31.03.2018	31.3.2017	31.03.2016
(X) Net sales	1,745	1,705	1,610

	Year Ending (₹ In lakhs)		
	31.03.2018	31.3.2017	31.03.2016
Less :			
(i) Cost of Bought Out Materials & Service (Raw Materials and Stores & Spares)	1,146	1,065	979
(ii) Power & Fuel, other bought out services	30	27	24
(iii) Over heads (excluding Salaries & Wages, Rates & Taxes and depreciation)	298	283	265
(Y) = (i) + (ii) + (iii)	1,474	1,375	1,268
Value Addition : (X) - (Y) =	271	330	342

	Year Ending (₹ In lakhs)		
	31.03.2018	31.3.2017	31.03.2016
Hence,			
(a) Operating profit as % of Value Added	199/271 73.43%	266/330 80.6%	287/342 83.92%
			= 84%
(b) Value Addition as % of Net Sales	271/1745 15.53%	330/1705 19.35%	342/1610 21.24%

EXPLANATION:

CALCULATION OF VALUE ADDITION:

Value added = Net Sales + Increase in stock (less if decrease in stock) – All Direct expenses.

NOTE: While calculating Value addition, we will Deduct all Direct Expenses from sales except following:

Depreciation;

Fixed Interest;

Fixed Expenses;

Salary & wages (Direct & Indirect both);

Taxes;

Proposed Dividend.

CALCULATION OF OPERATING PROFIT:

Operating Profit = Net Sales + Increase in stock (less if decrease in stock) – All Direct expenses.

NOTE: While calculating Operating Profit , we will Deduct all Direct Expenses from sales except following:

Fixed Interest;

Taxes.

Q.2: The following figures are obtained from the Cost Accounting Records of Sinjini Ltd. a single product manufacturing company:

Year ended 31st March	2018	2017
	(Amount in ₹ lakh)	
Net Sales	4,800	3,840

Year ended 31st March	2018	2017
	(Amount in ₹ lakh)	
Other Income	300	200
Increase in Value of Stock of Finished Goods	20	10
Raw materials Consumed	1,760	1,440
Direct wages, Salaries, Bonus, Gratuity etc.	440	352
Power & Fuel	240	192
Stores and Spares	160	140
Cess and local Taxes	120	100
Other manufacturing Overheads	430	370
Administrative Overheads:		
Audit fees	36	30
Salaries & Commission to Directors	48	40
Other Overheads	260	220
Selling and Distribution Overheads:		
Salaries & Wages	36	30
Packing and Forwarding	20	16

Year ended 31st March	2018	2017
	(Amount in ₹ lakh)	
Other Overheads	250	
Total Depreciation	120	
Interest Charges:		
On Working Capital Loans from Bank	60	25
On Fixed Loans from IDBI	90	70
On Debentures	30	30
Provision for Taxes	316	200
Proposed Dividends	420	230

You are required to calculate the following parameters as stipulated PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2018 and March 31, 2017:

- (i) Value Addition
- (ii) Earnings available for Distribution
- (iii) Distribution of Earnings to the different claimants.

Answer:

**Sinjini Ltd.
Calculation of Value Addition**

	2018	2017
Year ended March 31,	(Amount in ₹ lakh)	(Amount in ₹ lakh)
VALUE ADDITION:		
Net Sales	4,800	3,840
Add: Export Incentives	-	-
Add/Less: Adjustment in Finished stocks	20	10
	4,820	3,850
Less: Cost of bought out input:		
(i) Cost of Raw materials consumed	1,760	1,440
(ii) Consumption of stores and spares	160	140
(iii) Power & Fuel	240	192
(iv) Other overheads	1,056	861
(430+36+260+20+250+60) = 1,056		
(370+30+220+16+200+25) = 861		
Total cost bought out input	3,216	2,633
(i) VALUE ADDED	1,604	1,217

	2018	2017
Year ended March 31,	(Amount in ₹ lakh)	(Amount in ₹ lakh)
Add: Other Income	300	200
(ii) Earnings Available for distribution	1,904	1,417
(iii) Distribution of earnings to:		
(a) Employees as salaries and wages, bonus, gratuity etc.	476	382
Directors- Salaries and Commission	48	40
(b) Shareholders as dividend	420	230
(c) Company as retained funds (including depreciation)	404	365
(d) Government as taxes		
Local Taxes:	120	100
Income Taxes	316 436	200 300
(e) Providers of Capital/Fund as Interest on Debentures		
Interest on debentures	30	30
Interest on Fixed loans from IDBI	90 120	70 100
Total distribution of earnings	1,904	1,417

Distribution of Earnings to the different claimants:

- 1- Salaries and wages to Employees.
- 2- Salaries and commission to Directors.
- 3- Shareholder's Dividend.
- 4- Interest paid.
- 5- Local taxes and cess.
- 6- Retained Earnings (To be calculated).

GIVEN

NOTE:

- (A) Deduct all above 5 points from Earnings available for Distribution - Retained Earnings will be known.
- (B) Retained Earnings is remaining balance after deducting all above 5 points from Earnings available for Distribution.

Q.3: In the Financial Accounts of Chemicals & Fertilizers Ltd. for the year ended March 31, 2018 the profit was ₹898,07,500. The profit as per Cost Accounting records for the same period was less. The following details are extracted from the accounting schedules and Cost Accounting records of the company.

	Financial Accounts ₹ '000	Cost Accounts ₹ '000
Opening : Semi Finished Goods	31700	35210
: Finished Goods	83220	78590
Closing : Semi Finished Goods	35260	39420
: Finished Goods	89320	80450
Urea & Transport subsidy	348	

	Financial Accounts ₹ '000	Cost Accounts ₹ '000
Expenses on CSR	56	
Profit on sale of Fixed Assets	150	
Chemical used internally	382	365
Favourable Exch. Rate variation	294	
Post-retirement Medical grant	584	
Purchase Tax Refund	453	
Litigation Recovery-Prior year	125	

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Cost Records for the year ended March 31, 2018.

Answer:

HINT:

1. If Particulars are given as per Financial Accounting and also as per Cost accounting than start from Financial accounting and reach to cost Profit.
2. From Financial Profits – Deduct incomes and add expenses.
3. Consider
 - a. Opening balance as Expenses.
 - b. Closing balance as Income.

Chemicals & Fertilizers Ltd.

Reconciliation of financial profit and costing profit for the year ended March 31, 2018

Amount in ₹ Thousand

Profit or loss as per Financial Accounts		89,807.50
A. Less: Incomes not considered in Cost Accounts:		
i. Profit on sale of Fixed Assets	150	
ii. Urea & Transport Subsidy	348	
iii. Litigation Recovery-Prior year	125	
iv. Favorable Exch. Rate Variation	294	
v. Purchase tax Refund	453	
vi. Own consumption (chemicals) valuation difference (382-365)	17	(1,38,700)
B. Add: Expenses not considered in Cost Accounts		
i. Expenses on CSR	56	
ii. Post-retirement medical grant	584	640.00
Add: Difference in Opening stock (31700 + 83220) - (35210 + 78590) = 1120		
Less: Difference in closing stock (35260 + 89320) - (39420 + 80450) = 4710		
Profit as per cost account: 85470.5		

Q.4: Auto Parts Manufacturing Company Ltd. showed a profit for the year 2017-18 as ₹ 35,46,700. During the course of Cost Audit, the followings transactions were noticed:

- (i) An old machine with net value of ₹ 6,54,000 was sold off for ₹ 9,30,000,
- (ii) Dividend income was received amounting to ₹ 84,500 from investments,
- (iii) A sum of ₹ 58,000 was spent towards CSR commitment,
- (iv) The company was engaged in trading activity where purchase of goods was ₹ 13,50,000 and sales was ₹ 13,42,300, after incurring ₹ 40,800 as expenditure,
- (v) Some renovation work was carried out at a cost of ₹ 7,75,000 and its useful life was only for five years, and
- (vi) The closing inventory of raw material was undervalued ₹ 29,600 and that of finished goods was overvalued ₹ 65,400 in the financial records. Work out the Profit as per the Cost Accounts.

Answer:

Reconciliation of Profit between Cost Accounts and the Financial Accounts of Auto Parts Manufacturing Company Ltd. for the year 2017 – 18.

Particulars	₹	₹
Profit as per the Financial Accounts		35,46,700
Add: Trading Loss	48,500	
4/5th of Renovation Expenses Amortized	6,20,000	
CSR Contribution	58,000	
		7,26,500
Less: Profit on Sale of Assets	2,76,000	

Particulars	₹	₹
Income from Investments	84,500	
Net overvaluation of closing inventory in the Financial records ₹ (65,400 - 29,600)	<u>35,800</u>	(3,96,300)
Profit as per the Cost Accounts		38,76,900

Q.5: Ambica Textile Mills produced cloth and fabrics. In addition, they undertook customer's job order for processing of cloth towards optimum utilisation of its spare capacity and earned from loan licence. From the following Income figures.

Find out the turnover of the company as per the Companies (Cost Records and Audit) Rules:

Income	(₹ in lakhs)
Sales	19,300
Trading Sales from Depots	1,250
Export Income	2,100
Export Duty	450
Income from Job Processing	1,100
Scrap Sale	235
Income from Loan Licence operations	560

Answer:

As per the Companies Act, 2013, Turnover means gross turnover made by the company from the sale or supply of all products and services during a financial year but excluding duties and taxes.

Income	(₹ in lakhs)
Sales	19,300
Trading Sales from Depots	1,250
Export Income	2,100
Income from Job Processing	1,100
Scrap Sale	235
Income from Loan Licence operations	560
Total Turnover	24,545

Q.6:

The profit as per financial accounts of M/s Kalingpong Himalaya Private Company for the year 2017-2018 was ₹ 1,54,28,642. The profit as per Cost Accounting Records for the same period was less. You are required to prepare a reconciliation statement and arrive at the profit as per Cost Records. The following details are collected from the financial schedules and cost accounting records:

	Financial Accounts	Cost Accounts
Valuation of Stock		
Opening: WIP	25,62,315	22,65,710
Finished Goods	2,65,47,520	2,92,18,950
Closing : WIP	42,75,640	37,36,346
Finished Goods	3,72,59,430	4,35,25,149
Interest income from inter-corporate deposits	6,15,340	-
Donations given	4,85,560	-
Loss on Sale of Fixed Assets	1,22,546	-
Value of cement taken for own consumption	3,82,960	3,65,426
Cost of Power drawn from own Wind Mill		
— At EB tariff	-	49,56,325
— At cost	36,20,370	-
Non-operating income	45,36,770	-
Voluntary retirement compensation	16,76,540	-
Insurance claim relating to previous year received during the year	14,35,620	-

Answer:

RECONCILIATION STATEMENT

<u>PARTICULARS</u>	<u>AMOUNT (in Rs.)</u>
Profit as per financial accounts	1,54,28,642
+ Difference in stock valuation	33,51,600

<u>PARTICULARS</u>	AMOUNT (in Rs.)
(-) Interest income from inter-corporate deposits	(6,15,340)
+ Donations given	4,85,560
+ Loss on Sale of Fixed Assets	1,22,546
(-) Value of cement taken for own consumption (because drawings is income)	(17,534)
Cost of Power	
(-) At EB tariff	(49,56,325)
+ At cost	36,20,370
(-) Non-operating income	(45,36,770)
+ Voluntary retirement compensation (because expense of company)	16,76,540
(-) Insurance claim relating to previous year received during the year	(14,35,620)
Profit as per Cost Accounts	1,31,23,669

WORKING NOTE:

Less: Opening stock of finished goods: 26,71,430

Closing stock of WIP: 5,39,294

Total: 32,10,724

Add: Opening stock of WIP: 2,96,605

Closing stock of finished goods: 62,65,719

Total: 65,62,324

DIFFERENCE IN STOCK VALUATION = 65,62,324 – 32,10,724 = 33,51,600

Q.7: The Cost Accountant of TRINCUS TEXTILES MILLS LTD. has arrived at a Profit of ₹20,10,500 based on Cost Accounting Records for the year ended March 31, 2018. Profit as per Financial Accounts is ₹22,14,100. As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

	₹
1 Profit on Sale of Fixed Assets	2,05,000
2 Loss on Sale of Investments	33,600
3 Voluntary Retirement Compensation included in Salary & Wages in F/A	50,25,000
4 Donation Paid	75,000
5 Insurance Claim relating to previous year received during the year	5,08,700
6 Profit from Retail trading activity	32,02,430
7 Interest Income from Inter-Corporate Deposits	6,15,000
8 Decrease in value of Closing WIP and Finished goods inventory	
as per Financial Accounts	
	3,82,06,430
as per Cost Accounts	
	3,90,12,500

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2018.

Answer: Reconciliation of Profit between Cost and Financial Accounts for the year ended March 31, 2018

	₹	₹
Profit as per Financial Accounts:		22,14,100
Add: Loss on sale of investments	33,600	
Add: Voluntary Retirement compensation included in salary and wages in F/A - Not included in cost A/c	50,25,000	
	75,000	51,33,600
Add: Donation paid		73,47,700
Less: Profit on Sale of Fixed Assets-Not considered in cost A/c	2,05,000	
Less: Receipts of insurance claim related to previous year	5,08,700	
Less: Profit from Retail trading activity	32,02,430	
Less: Interest income from inter-corporate deposit-not considered in cost accounts	6,15,000	
Less: Difference in valuation of stock:		
Decrease in inventories as per cost accounts 3,90,12,500		
Decrease in inventories as per financial accounts 3,82,06,430	8,06,070	53,37,200
Profit as per Cost Accounts		20,10,500

Q.8: The Financial Profit and Loss of M/s. VGM Manufacturing company Ltd. for the year is ₹28,75,000. During the course of cost audit, it is noticed the followings:

- (i) Some Old assets sold off which fetched a profit of ₹1,25,000.
- (ii) Interest was received amounting to ₹45,000 from outside the business investment.
- (iii) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead is ₹2,15,000 in opening W-I-P and ₹2,45,000 in closing W-I-P.
- (iv) The Company was engaged in Trading activity by purchasing goods of ₹11,15,845 and selling at ₹13,12,850 after incurring ₹35,000 as expenditure.
- (v) A major overhaul of machinery was carried out at a cost of ₹5,50,000 and next such overhaul will be done only after five years.
- (vi) Opening stock of raw material and finished goods was overvalued for ₹2,00,000 and closing stock was overvalued ₹1,85,000 in financial records.

Work out the profit as per Cost Accounts.

Answer:

Reconciliation of Profit between Cost Accounts and Financial Accounts of M/s. VGM Manufacturing Company Ltd.

Particulars	₹	₹
Profit as per Financial Accounts		28,75,000
Add: Difference in valuation of W-I-P	30,000	
Proportionate charge i.e. four-fifth for overhaul of machinery	4,40,000	
Overvaluation of Opening Stock in the financial records	2,00,000	6,70,000

Particulars	₹	₹
Less: Profit on sale of old assets not included in Cost A/cs	1,25,000	
Interest received from outside investment	45,000	
Trading profit not included in cost accounts	1,62,005	
Overvaluation of closing stock in the financial records	1,85,000	(-) 5,17,005
Profit as per Cost Accounts		30,27,995

PRACTICE QUESTIONS

Multiple Choice Questions:

- 1. The applicability of cost audit under Companies (Cost Records & Audit) – Rules, 2014 for regulated industries having overall annual turnover during immediate preceding financial year is _____.
- a. ₹25.00 crores or more
- b. ₹35 .00 crores
- c. ₹50.00 crores or more
- d. ₹100.00 crores

- 2. The Company has to upload CRA-4 electronically to the MCA under the rule _____ of Companies (Cost Records & Audit) Rules, 2014
- a. Rule 5 (1)
- b. Rule 6 (2)
- c. Rule 4 (6)
- d. Rule 6 (6)

- **3. The form in which the cost records shall be maintained .**
 - a. CRA-1
 - b. CRA-2
 - c. CRA-3
 - d. CRA-4

- **4. Which of the following type of Electricity Company is under the purview of regulated sector?**
 - a. Engaged in Generation
 - b. Engaged in Transmission
 - c. Engaged in Distribution & Supply
 - d. All the above

- **5. Which one of the below is not a regulated industry?**
 - a. Telecommunication
 - b. Electricity
 - c. Drugs & Pharmaceuticals
 - d. Automobile

- **6. Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within _____days of occurrence of such vacancy.**
 - a. 30 days
 - b. 60 days
 - c. 90 days
 - d. 7 days

ANSWERS:

1	(c) ₹50.00 Crores
2	(d) Rule 6 (6)
3	(a) CRA-1
4	(d) All the Above
5	(d) Automobile
6	(a) 30 days

STATE TRUE OR FALSE

1. Micro enterprise or a small enterprise or a medium enterprise as per MSMED Act, 2006, with a overall turnover of ₹37.00 crores, have been taken out of the purview of Companies (Cost Records & Audit) Rules, 2014.
2. The requirement for maintenance of cost record under the rule 3 of Companies (Cost Records & Audit) Rules, 2014 shall apply to a company whose total revenue is ₹200 crores and revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue.
3. Every cost auditor shall forward his duly signed report to the Audit Committee of the company within a period of 180 days from the closure of the financial year.
4. The tenure of Cost Auditor expires on the completion of one hundred and eighty days from the closure of the financial year.
5. Provisions of section 139, 143, 144 and 145 of the Companies Act, 2013 is applicable to Cost auditor.

ANSWERS:

1	False- As per Rule-3 of Companies (Cost Records & Audit) Rules, 2014 only a micro enterprise or a small enterprise as per MSMED Act, 2006 have been taken out of the purview.
2	False- As per Rule-4 (3) of Companies (Cost Records & Audit) Rules, 2014 the requirement for cost audit shall not apply to a company whose revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue even though it is covered in rule 3.
3	False- Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year.
4	False- As per Rule-6 (3) of Companies (Cost Records & Audit) Rules, 2014, the tenure of Cost Auditor expires of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.
5	True (Ref. sec. 148(8)(B))

FILL IN THE BLANKS

1. Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report in form_____.
2. Company should furnish the Cost Audit report within a period of _____ days from the date of receipt of a copy of the cost audit report to the Central Government.
3. The cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year i.e. _____ September of the relevant financial year.
4. The maximum fine for default in provisions of section 148 of the Companies Act, 2013 is _____

ANSWERS:

1	CRA-3
2	30 days
3	27th of September
4	₹ 5.00 Lacs

CHAPTER – 3: COST AUDITOR

Q.: Who is a cost Auditor?

Ans.: “Cost auditor” means a Cost Accountant in practice.

NOTE: Each and every member of the profession in practice is required to follow certain professional ethics and code of conduct as prescribed by the Cost and Works Accountants Act, 1959 and Regulations there under.

Qualifications: As per Section 141 of Companies Act, 2013, the following persons should be considered as qualified for being a company auditor:

- (i) A person shall be eligible for appointment as an auditor of a company, only if he is a Chartered Accountant [Section 141(1)].
- (ii) A firm can also be appointed by its firm name to act as the auditor of a company if majority of its partners practicing in India are qualified for appointment as company auditor [Section 141(1)].
- (iii) Where a firm, including a limited liability partnership, is appointed as an auditor of a company, only the partners who are Chartered Accountants shall be authorized to act and sign on behalf of the firm [Section 141(2)].

EXAMPLE:

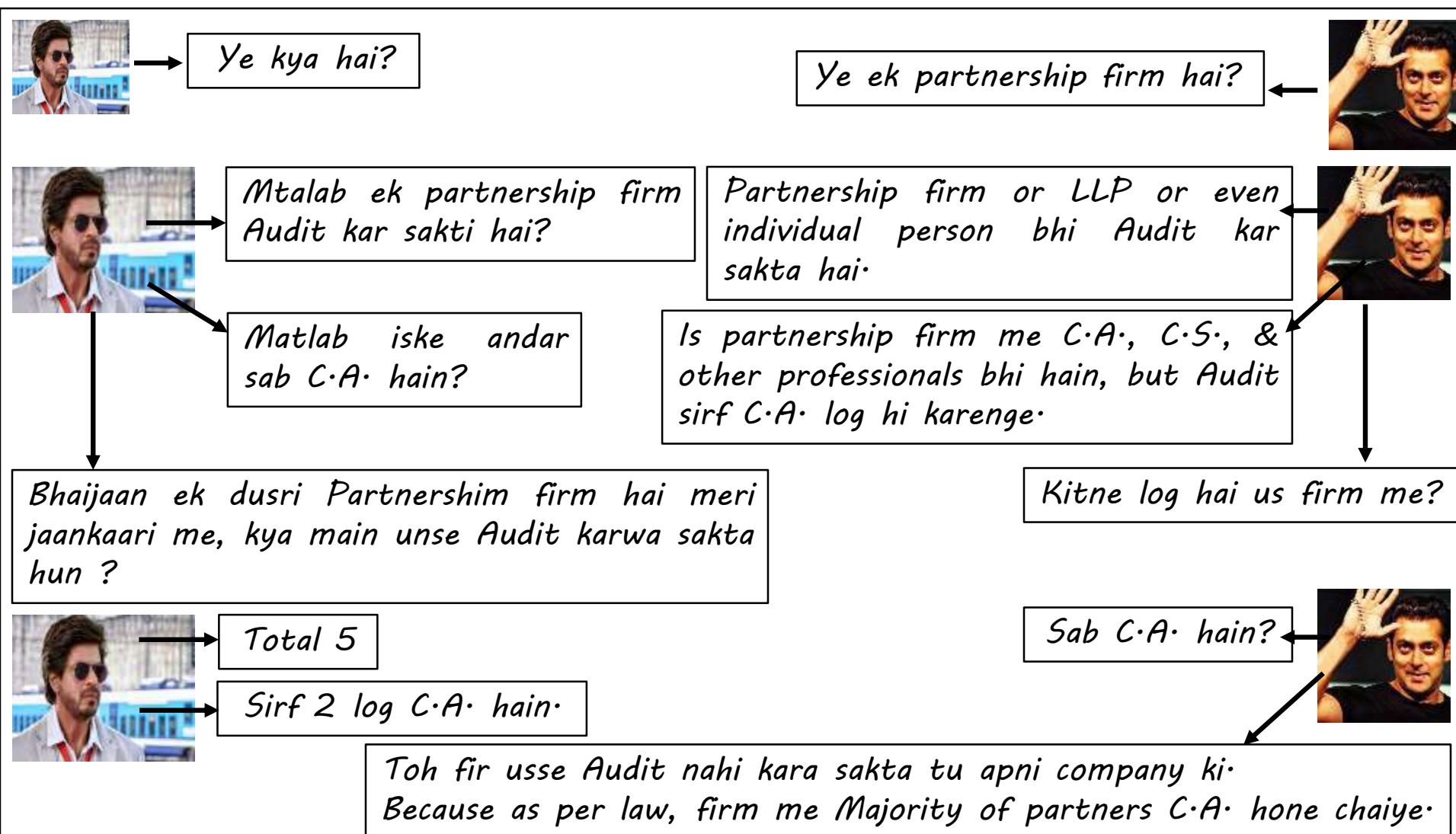


Kya hua SRK?

Bhaijaan Audit karani hai company ki, par kisse karaun?



Jaani Dushman & Associates se kara le



NOTE: In this context, the meaning of the term 'Chartered Accountant' shall be interpreted based on the provisions of The Chartered Accountants Act, 1949 as follows: