

# CMA FINAL

A COMPILATION OF **MCQs** from ALL AVAILABLE RESOURCES

## PAPER 17 : COST AND MANAGEMENT AUDIT (CMAD)

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## PAPER 19 : COST AND MANAGEMENT AUDIT

1. Rule 6 of the Companies (Cost Records and Audit) Rules, 2014 deals with:

- (A) Application of Cost Records                      (B) Application of Cost Audit  
(C) Appointment of Cost Auditor                      (D) Cost Audit Report.

#(C) Appointment of Cost Auditor.

According to Rule 6(1), the category of companies specified in Rule 3 and the thresholds limits laid down in Rule 4, shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.

Provided that before such appointment is made, the written consent of the cost auditor to such appointment, and a certificate from him or it, as provided in subrule (1A), shall be obtained.

2. Cost of self generation Utilities for own consumption shall comprise of:

- (A) Administrative Overheads                      (B) Distribution Cost  
(C) Factory overheads                              (D) None of the above.

#(C) Factory overheads.

As per CAS 8, cost of self generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.

3. Product and Profitability Statement (For audited products/services) is shown under \_\_\_\_\_ of Annexure to Cost Audit Report.

- (A) Part A                      (B) Part B                      (C) Part C                      (D) Part D

#(D) Part D.

Pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014.

4. Any casual vacancy in the office of a cost auditor, shall be filled by the Board of Directors within \_\_\_\_\_ days of occurrence of such vacancy.

- (A) 180                      (B) 90                      (C) 30                      (D) 60

#(C) 30.

Pursuant to Rule 6(3A) of the Companies (Cost Records and Audit) Rules, 2014.

5. The Companies are required to maintain Cost Records if turnover exceeds \_\_\_\_\_ crores or more during immediately preceding Financial Year in respect of the products and services specified.

- (A) 25                      (B) 30                      (C) 35                      (D) 10

#(C) 35.

Pursuant to Rule 3 of the Companies (Cost Records and Audit) Rules, 2014.

6. Exemptions from application of the Rules are provided to Companies whose revenue from exports, in foreign exchange, exceeds \_\_\_\_\_ of total revenue and companies operating from Special Economic Zones.

- (A) 45%                      (B) 50%                      (C) 75%                      (D) 80%

#(C) 75%.

The requirement of Cost Audit under these rules shall not apply to companies whose revenue from exports in foreign exchange exceed 75% of total revenue and companies operating in special economic zone.

7. Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the First Schedule of The CWA Act, 1959?

(A) discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client, or otherwise than as required by any law for the time being in force;

(B) allows any person to practice in his name as a cost accountant unless such person is also a cost accountant in practice and is in partnership with or employed by himself

(C) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute:

(D) secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business:

#(A) discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client, or otherwise than as required by any law for the time being in force;

*It is a misconduct as per the Second Schedule, Part I of the CWA Act, 1959*

8. Operational Audit is a \_\_\_\_\_ Level Management Audit.

(A) Macro

(B) Micro

(C) Depends on situation

(D) None of the above

#(B) Micro.

*The objective of operational audit is to appraise the effectiveness and efficiency of a division, activity, or operation of the entity in meeting organizational goals.*

9. CAS 9 deals with

(A) Direct Material Cost

(B) Indirect Material Cost

(C) Packing Material Cost

(D) Imported Material Cost.

#(C) Packing Material Cost.

*This standard deals with the principles and methods of determining the Packing Material Cost.*

10. In XBRL Format process of determining the elements that correspond to lines and columns in a financial statement and which elements must be created by extension is:

(A) Mapping

(B) Label

(C) Hierarchy

(D) Scaling

#(A) Mapping.

*This is as per XBRL glossary. Several technical terms are used, that have specific meanings, in the context of using XBRL.*

11. A Cost Auditor should qualify the Cost Audit Report where:

(a) He is unable to form an opinion due to non availability of appropriate records/data.

(b) He finds that items in the cost statements are mistated.

(c) None of the above.

(d) Both of the above.

#(b) He finds that items in the cost statements are mistated.

*Where he is unable to form an opinion due to non availability of appropriate records/data, he should make a disclaimer.*



**12. CAS 11 deals in:**

- (a) Administrative Overheads.                      (b) Factory Overheads.  
(c) Selling and Distribution Overheads.        (d) Financial Costs.

# (a) Administrative Overheads.

*This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.*

**13. Under Part D of the Annexure to the Cost Audit Report, information regarding Value Addition (for company as a whole ) to be furnished for:**

- (a) Previous year only.                              (b) Current year and previous 2 years.  
(c) Current year and previous year.            (d) Previous three years.

#(c) Current year and previous year.

*Companies (Cost Records and Audit), Rules 2014 prescribes this format of information for Value Addition.*

**14. XBRL is a language based on :**

- (a) XBL family of languages.                      (b) XRL family of languages.  
(c) XML family of languages                      (d) XGL family of languages.

# (c) XML family of languages.

*XBRL belongs to Extensible Markup Language family. It has been defined specifically to meet requirements of business and financial information.*

**15. Part C of the annexure to Cost Audit Report provides Quantitative information related to:**

- (a) Manufacturing Sector                              (b) Service Sector  
(c) None of the above                                (d) Both of the above

#(b) Service Sector.

*This is as per format prescribed by Companies(Cost Records and Audit ) Rules, 2014.*

**16. The main emphasis of Management Audit is:**

- (a) problem solving                                      (b) problem identification  
(c) problem definition                                (d) problem avoidance

#(b) problem identification.

*Management Audit pinpoints the areas requiring attention of management, it evaluates the existence of well defined objectives , it seeks to review appraise and evaluate the corporate plans and policies based on certain standards of objectivity.*

**17.Item appearing only in Cost Records:**

- (a) Profit on sale of Assets  
(b) Interest received  
(c) Loss on sale of Assets  
(d) Notional interest on capital

# (d) Notional interest on capital.

*This does not involve actual outlay of funds . So not included in Financial Accounts but included in cost records to determine product cost. The other three items are not related to actual production, so doesnot form part of Cost Records*

**18. Value addition is:**

- (a) difference between gross sales and the cost of bought out materials and services.
- (b) difference between net sales and the cost of bought out materials and services.
- (c) Gross profit.
- (d) Net profit.

#(b) difference between net sales and the cost of bought out materials and services.

*Value added is equivalent to revenue less intermediate consumption.*

**19. Efficiency Audit ensures \_\_\_\_\_ return on Capital Employed.**

- (a) optimum
- (b) maximum
- (c) minimum
- (d) average

#(a) optimum.

*The main purpose of Efficiency Audit is to ensure —*

- i) that every rupee invested in capital or in other fields give optimum returns, and*
- ii) the balancing investment between different functions and aspects designed to give optimum results.*

**20. Cost Auditing Standard 103 deals with:**

- (a) Planning an Audit of Cost Statements
- (b) Cost Audit Documentation
- (c) Overall Objectives of the Independent Cost Auditor and Conduct of an Audit in Accordance with Cost Auditing Standards
- (d) Knowledge of Business , Its processes and the Business Environment

#(c) Overall Objectives of the Independent Cost Auditor and Conduct of an Audit in Accordance with Cost Auditing Standards.

*This standard on auditing deals with the overall objectives of the independent cost auditor, the nature and scope of a cost audit the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with cost auditing standards.*

**21. Cost Auditing Standard 102 deals with \_\_\_\_\_.**

- (a) planning an Audit of Cost Statements
- (b) Cost Audit Documentation
- (c) knowledge of process and business
- (d) overall objectives of the Independent Cost Auditor

# (b) Cost Audit Documentation

*Reason: The purpose of the Cost Auditing Standard 102 is to provide guidance to the members in the preparation of audit documentation in the context of the audit of cost statements, records and other related documents.*

**22. Compensation paid to employees for the past period is \_\_\_\_\_ in Employee Cost.**

- (a) included
- (b) excluded
- (c) based on individual case
- (d) partly included

# (b) Excluded

*Reason: As per CAS 7, Compensation paid to employees for the past period is not normal cost and hence is excluded from employee cost.*

**23. The Cost Accounting Standard 14 is a Cost Accounting Standard on \_\_\_\_\_.**

- (a) Employee Cost                      (b) Utilities Cost  
(c) Pollution Control Cost            (d) Selling and Distribution Overheads Cost

#(c) Pollution Control Cost

*Reason: CAS - 14 deals with the principles and methods of classification, measurement and assignment of pollution control costs, for determination of Cost of product or service, and the presentation and disclosure in cost statements.*

**24. The figures below are available for Welcome Limited.**

**Budgeted Production - 1000 units, Standard Hours per unit -10,**

**Actual Production – 900 units and Actual Working - 7500 hours.      What is the Efficiency Ratio?**

- (a) 110%                      (b) 120%                      (c) 100%                      (d) 125%

#(b) 120 %

*Reason: Efficiency Ratio= (Standard Hours of actual Production)/(Actual Hours worked)×100  
= [(900 x 10)/7500] x 100 = 120 %*

**25. What is the time limit within which the Cost Auditor of the company should submit his report?**

- (a) 90 days                      (b) 120 days                      (c) 150 days                      (d) 180 days

#(d) 180 days

*Reason: As per rule 6 (5) of the Companies (Cost Records and Audit) Rules 2014, every Cost Auditor shall forward his signed report to the Board of Directors of the Company within a period of one hundred and eighty days from the closure of the financial year to which the report relates.*

**26. Under the Generally Accepted Cost Accounting Principles, the cost of cane supplied from own farm to the sugar mill is treated as \_\_\_\_\_.**

- (a) Direct Materials Cost                      (b) Indirect Materials Cost  
(c) Production Overhead                      (d) Administrative Overhead

#(a) Direct Material Cost

*Reason: As per the GACAP, Direct Materials Cost includes cost of procurement and freight inwards of the materials.*

**27. The Cost Accounting Standard 9 deals with \_\_\_\_\_.**

- (a) Material Cost                      (b) Employee Cost  
(c) Packing Material Cost                      (d) repairs and Maintenance Cost

#(c) Packing Material Cost

*Reason: CAS – 9 deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in cost statements.*

**28. \_\_\_\_\_ of the Companies Act 2013 deals with Internal Audit.**

- (a) Section 137                      (b) Section 138                      (c) Section 139                      (d) Section 140

#(b) Section 138

*Reason: As per Section 138 of the Companies Act , 2013 an internal auditor, shall either be a Chartered Accountant or a Cost Accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.*

29. The Local bodies in India are broadly classified into \_\_\_\_\_ categories.

- (a) Two                      (b) Three                      (c) Four                      (d) Five

Answer (a) Two.

Reason: The Local Bodies in India are broadly classified into two categories. The Local Bodies constituted for local planning, development and administration in the rural areas are referred as Rural Local Bodies (Panchayats) and the Local Bodies, which are constituted for local planning, development and administration in the urban areas are referred as Urban Local Bodies (Municipalities).

30. The first step in audit of Educational Institutions \_\_\_\_\_.

- (a) Read through the minutes of the meetings of the Managing Committee or Governing Body  
(b) Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund  
(c) Verify the annual statements of accounts  
(d) To examine the Trust Deed or Regulations Answer (d) To examine the Trust Deed or Regulations

Reason: The first step in audit of Educational Institutions Examine is to examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed thereunder.

31. Fill in the blanks:

- (i) Management audit requires -----approach.  
(ii) A corporate development audit is an -----objective study of organization's capabilities.  
(iii) Corporate objectives represent the ----- for organization as laid down by itself.  
(iv) CAS 11 deals with -----  
(v) Efficiency Audit ensures -----return on capital employed.

Answer

- (i) inter-disciplinary      (ii) Independent      (iii) Charter  
(iv) Administrative overheads.      (v) Optimum

32. State whether the following statements are true or false:

(i)

Normal capacity is maximum production capacity of a plant.

- (ii) CAS 20 deals with Royalty and Technical Knowhow fee.  
(iii) Under Part D of the Annexure to the Cost Audit Report, information regarding Profit Reconciliation (for company as a whole ) to be furnished for Current year and previous 2 years.  
(iv) Cost Auditor's observation and suggestions are given in CRA-3.  
(v) Cost Auditing Standard 102 deals with Planning an Audit of Cost Statements

Answer

- (i) False.      (ii) True.      (iii) False.      (iv) True.      (v) False.

33. Answer any five of the following in one or two sentences:

(i) What constitutes the cost records under Rule 2(e)?

# Cost records " means books of account and other records relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these rules. The Act here refers to The Companies Act 2013. Rule refer to Cost (Records and Audit) Rule, 2014.

(ii) Define Cost Auditor.

#Rule 2(c) of the Cost Records and Audit) Rules , 2014 means a Cost Accountant in practice , as defined in clause (b) , who is appointed by the Board.

(iii) How would you treat demurrage charges as per CAS 15?

#As per CAS 15 relating to Selling and Distribution overheads, any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the Selling and Distribution overhead.

(iv) How would you treat Employee share options under Generally Accepted Cost Accounting Principles ?

#Cost of employee share options is treated as part of employee cost provided the same is not a notional cost and involves an actual cash outlay.

(v) What is XBRL?

#XBRL (extensible Business Reporting Language) is a language based on XML (Extensible Mark-up Language) family of languages. It is an open standards-based reporting system that is built to accommodate the electronic preparation and exchange of business reports around the world using internet as a medium. It has been defined specifically to meet the requirements of business and financial information.

(vi) How will you treat an item of Direct Expenses that doesnot meet the test of materiality as per CAS 10?

# If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.

34. Costing Taxonomy is best defined as a:

(a) Dictionary            (b) Made easy            (c) Tax Ready Reckoner            (d) Referencer

#(a) Dictionary.

Costing Taxonomy is a dictionary of all cost elements required in cost audit report.

35. The forex component of imported material is converted at the rate on \_\_\_\_\_

(a) date of payment            (b) date of delivery            (c) date of transaction            (d) date of use.

#(c) date of transaction.

This is as per CAS 6 and GACAP

36. Number of Sectors/industry product/service under Regulated category are:

(a) Three            (b) Two            (c) Six            (d) Five

# (c) Six.

-This is as per Table A of Section 3 of the Companies(Cost Records and Audit)Rules, 2014.



**37. Para 6, Part D of the Annexure to the Cost Audit Report provides information on:**

- (a) Financial Position and Ratio Analysis(for the company as a whole)**
- (b) Value Addition and Distribution of Earnings for Product Group**
- (c) Product and profitability statement(for audited products/services)**
- (d) Reconciliation of Indirect Taxes(for company as a whole)**

*# (d) Reconciliation of Indirect Taxes(for company as a whole).*

*Companies(Cost Records and Audit) , Rules 2014 prescribes this format of information .*

**38. There are no fixed items of evidence to be checked by Management Auditor**

- (a) The statement is true.**
- (b) The statement is false.**
- (c) The statement is partly true.**
- (d) The statement is partly false.**

*#(a) The statement is true.*

*A Management Auditor has to rely more on his experience and acumen to identify areas of review .)*

**39. Penalty paid to PF authorities is ----- in Employee Cost.**

- (a) included**
- (b) excluded**
- (c) will depend on individual case**
- (d) partly included.**

*#(b) excluded.*

*Penalty paid to PF authorities is not normal cost. Hence excluded as per CAS 7 from Employee Cost.*

**40. Copy of Cost Audit Report neednot be submitted to**

- (a) Central Government**
- (b) Board of Directors of the Company**
- (c) Members at Annual General Meeting of the Company**
- (d) Income Tax Officer along with the Income tax Return**

*# (c) Members at Annual General Meeting of the Company.*

*The shareholders and the general public have no access to the Cost audit Report unlike the Financial Audit Report. Cost Audit Report is treated as a confidential document as it contains vital information which if divulged would affect competitiveness of trade and business of the company whose information is so divulged.*

**41. CAS 5 deals with\_\_\_\_\_**

- (a) equalized cost of transportation**
- (b) captive consumption**
- (c) capacity determination**
- (d) cost classification.**

*# (a) equalized cost of transportation.*

*The objective of the standard is to bring uniformity in the application of principles and methods used in the determination of averaged/ equalized transportation cost.*

**42. PART B of the Annexure to Cost Audit Report provides information on :**

- (a) Service sector**
- (b) Manufacturing sector**
- (c) Agricultural Sector**
- (d) Foreign Trade.**

*#(b) Manufacturing sector.*

*Companies(Cost Records and Audit) , Rules 2014 prescribes this format of information .*

**43. Royalty paid on sales 30,000; Royalty paid on units produced 20,000, Hire Charges of equipment used for production 2,000, Design charges 15,000, Software development charges related to production 22,000. The Direct Expenses amount is :**

- (a) 88000                      (b) 89000                      (c) 99000                      (d) 98000

#(b) 89000.

*Direct expenses = Royalty paid on sales + Royalty on units produced + Hire charges on equipment + Design Charges + Software development charges  
= (30000 + 20000 + 2000 + 15000 + 22000) = 89000*

**44. Exemptions from application of the Rules are provided to Companies whose revenue from exports, in foreign exchange, exceeds \_\_\_\_\_ of total revenue and companies operating from Special Economic Zones.**

- (a) 45%                      (b) 50%                      (c) 75%                      (d) 80%

#(c) 75%.

*Reason: The requirement of Cost Audit under these rules shall not apply to companies whose revenue from exports in foreign exchange exceed 75% of total revenue and companies operating in special economic zone.*

**45. Cost Auditing Standard 103 deals with \_\_\_\_\_.**

- (a) planning an Audit of Cost Statements  
(b) Cost Audit Documentation  
(c) knowledge of process and business  
(d) overall objectives of the Independent Cost Auditor

#(d) overall objectives of the Independent Cost Auditor

*Reason: This Standard on Auditing deals with the overall objectives of the independent cost auditor, the nature and scope of a Cost audit the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with Cost Auditing Standards. It also explains the requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the Cost Auditing Standards.*

**46. Field Balance Sheet Approach to audit can be applied in audit of \_\_\_\_\_**

- (a) Non-Governmental Organisations (NGOs)  
(b) Self Help Group                      (c) Local Bodies                      (d) Commercial Accounts

#(b) Self Help Group

*Reason: The auditor prepares the Field Balance Sheet for the group, as on the date of the audit, based on the Self Help Group's (SHG's) internal records and then cross checks the correctness of balance sheet items. The primary objective is to ascertain the retained earnings of the SHG.*

**47. CAS 7 deals with \_\_\_\_\_.**

- (a) Direct Material Cost                      (b) Indirect Material Cost  
(c) Packing Material Cost                      (d) Employee Cost.

#(d) Employee Cost

*Reason: This standard deals with the principles and methods of classification, measurement and assignment of Employee cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.*

48. Cost Auditor's observation and suggestions are given in \_\_\_\_\_

- (a) CRA-3                      (b) CRA -2                      (c) CRA-1                      (d) Annexure

# (a) CRA-3.

Reason: This is as per format prescribed by Companies (Cost Records and Audit) Rules, 2014.

49. \_\_\_\_\_ is the evaluation of every resources declared in the industry.

- (a) Performance Analysis                      (b) Productivity Analysis  
(c) Profitability Analysis                      (d) Financial Analysis

# (b) Productivity Analysis.

Reason: Productivity involves variables of input resources and the output. Measuring, identifying and isolating the different input resources and analyzing their contribution to produce goods and services and their effect on costs and profitability is imperative of Productivity Analysis.

50. \_\_\_\_\_ of the Annexure to the Cost Audit Report prescribes the method of calculation of Value Addition.

- (a) Part A                      (b) Part B                      (c) Part C                      (d) Part D

# (d) Part D

Reason: Annexure to the Cost Audit Report - Part D prescribes the method of calculation of Value Addition. The term "Value Addition" has been defined under the Companies (Cost Records and Audit) Rules, 2014 as the difference between net output value (net sales adjusted for WIP and finished stock) and cost of bought out materials and services for the product under reference.

51. The main emphasis of Management Audit is \_\_\_\_\_

- (a) problem solving                      (b) problem identification  
(c) problem definition                      (d) problem avoidance

# (b) Problem identification.

Reason: Management Audit pinpoints the areas requiring attention of management. It evaluates the existence of well defined objectives. It seeks to review appraise and evaluate the corporate plans and policies based on certain standards of objectivity.

52. CAS 5 deals with \_\_\_\_\_

- (a) equalized cost of transportation                      (b) captive consumption  
(c) capacity determination                      (d) cost classification.

# (a) equalized cost of transportation.

Reason: The objective of the standard is to bring uniformity in the application of principles and methods used in the determination of averaged/ equalized transportation cost.

53. \_\_\_\_\_ is sometimes defined as an extension of Financial Audit.

- (a) Internal Audit                      (b) Management Audit  
(c) Operational Audit                      (d) Propriety Audit

# (c) Operational Audit

Reason: An operational Audit is sometimes defined as an extension of a Financial Audit. The objective of Operational Audit is to assist the organization in performing functions more effectively and economically with focus on the efficiency and effectiveness of operations.

54. Fill in the blanks:

- (i) According to CAS 8 on Utilities the cost of maintaining stand-by utilities is ----- cost.
- (ii) Equalized transportation cost means ----- transportation cost incurred during a specified period.
- (iii) Costing Taxonomy is best defined as a -----.
- (iv) Variances due to abnormal reasons ----- form part of cost as per GACAP.
- (v) ----- is evaluation of every resources declared in the industry.

#Answer:

- (i) Committed.                      (ii) Average                      (iii) Dictionary
- (iv) Will not                      (v) Productivity Analysis.

55. State whether the following statements are true or false:

- (i) Cost Audit is synonymous with efficiency audit.
- (ii) Donations given to Charitable Institutions should not form part of Cost Accounts.
- (iii) Market research cost is not a part of Research and Development Cost.
- (iv) CAS 9 deals with indirect material cost.
- (v) Part B of the Annexure to Cost Audit Report relates to service sector.

#Answer

- (i) True.                      (ii) True                      (iii) True.                      (iv) False.                      (v) False.

56. Answer any five of the following in one or two sentences:

**(i) How is cost computed if service is provided by contractors as per CAS 13?**

*# Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services. Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.*

**(ii) Which Companies are required to maintain Cost Records?**

*#Any domestic or foreign company listed in Table of Rule 3, falling under regulated or non-regulated sectors and engaged in production of goods or provision of services with overall turnover from all its products or services is equal or more than 35 crores in preceding financial year is required to maintain Cost Records.*

**(iii) What is the objective of Cost Auditing Standard 101?**

*#Audit report will be an indicator of the usefulness of the internal audit functioning in the organization. The objective of this Cost Auditing Standard 101 is to guide the members in planning for the audit of cost statements so that it is performed in an efficient and effective manner. Audit planning shall also include establishing the overall audit strategy and audit plan for the conduct of the audit.*

**(iv) What do you understand by Audit Report?**

*#An audit report is a formal document where internal audit summarizes its work on an audit and reports its findings and recommendations based on that work.*

**(v) What is the benefit of having cost related data in XBRL format?**

*#Government and Regulators require cost data of different sectors for policy making. The availability of cost data [without compromising on the confidentiality] in XBRL format enables informed decision making and for sectoral studies. With full adoption of XBRL, companies would be able to integrate its financial and cost data across its operational areas and exercise better control on its activities.*

**(vi) What you understand by "True and Fair Cost of Production."?**

*#The concept of "True and Fair Cost of Production" is used in the context of cost audit wherein the cost auditor has to state whether in his opinion the company's cost accounting records have been kept so as to give a true and fair view of the cost of production, processing and marketing of the product.*

**57. The cost records are to be maintained as specified in:**

- (A) CRA3                      (B) CRA1  
(C) CRA 4                     (D) CRA 2

*# (B) CRA1.*

*Pursuant to Rule 5(1) of the Companies(Cost Records and Audit) Rules, 2014*

**58. The excisable goods not sold but used for consumption for manufacture in the production of other articles should be valued at \_\_\_\_\_ of cost.**

- (A) 100%                      (B) 90%  
(C) 110%                      (D) 95%

*#(C)110%.*

*According to the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000, the assessable value of goods used for captive consumption is 110% w.e.f. 05-08-2003 of cost of production of such goods, and as may be prescribed by the Government from time to time.*

**59. 'Sugar and Industrial Alcohol' belong to \_\_\_\_\_ sector for the purpose of Application of Cost Records.**

- (A) Regulated  
(B) Non-regulated  
(C) Both depending on circumstances  
(D) None of the above statements are correct.

*#(A) Regulated.*

*As per Rule 3 of the Companies(Cost Records and Audit )Rules , 2014 Table A.*



60. Administration Overheads is dealt in CAS-----.

- (A) 12 (B) 11 (C) 10 (D) 9

#(B)11.

CAS 11 deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

61. "Related party", with reference to a company, means—

- (A) a director or his relative;  
(B) a key managerial personnel or his relative;  
(C) a firm, in which a director, manager or his relative is a partner;  
(D) All the above are correct.

# (D) All the above are correct.

*This is as per clause 76 section 2 of the Companies Act 2013*

62. Part D of the Annexure to Cost Audit Report shows profit reconciliation for :

- (A) Product group (B) Service group  
(C) Company as a whole. (D) Individual product/services.

#(C)Company as a whole.

*As per Form CRA-3, pursuant to Rule 6(4) of the Companies(Cost Records and Audit) Rules, 2014.*

63. Items appearing only in Cost Records:

- (A) Rent receivable (B) Notional interest on capital  
(C) Good will written off. (D) Dividend

#(B) Notional interest on capital.

*This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.*

64. The Balance Sheet of X Ltd. As on 31st March 2017 showed the following information:

Capital -1500 lacs, Reserves-696 lacs, Loans-600 lacs, Sundry Creditors 774 lacs, Total assets -3570 lacs. For the year 16-17, PBT-900 lacs, provision for tax is 360 lacs and proposed dividend is 300 lacs. Return on Networth is:

- (A) 30.41% (B) 29.41% (C) 28.41% (D) 27.41%

#(B)29.41%

*Networth =Capital +Reserves-Revaluation reserve (if any)-accumulated losses(if any)deferred expenditure(if any)-misc. expenditure not written off(if any) Networth =1500+696-360=1836 Total Earning =900-360=540 Return on Networth =540/1836=29.41%*

65. Royalty paid on units produced 20,000, Hire Charges of equipment used for production 2,000, Design charges 15,000, Software development charges related to production 22,000. The Direct Expenses is:

- (A) 57000/- (B) 59000/- (C) 37000/- (D) 44000/-

#(B)59000/-

*Direct expenses= Royalty paid on units produced+ Hire Charges of equipment used for production+ Design charges+ Software development charges related to production  
=20000 + 2000 + 15000 + 22000 =59000/-*

66. Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the First Schedule of The CWA Act, 1959?

- (A) expresses his opinion on cost or pricing statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest;
- (B) allows any person to practise in his name as a cost accountant unless such person is also a cost accountant in practice and is in partnership with or employed by himself
- (C) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute:
- (D) secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business:

# (A) expresses his opinion on cost or pricing statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest;

*It is a misconduct as per the Second Schedule, Part I of the CWA Act, 1959*

67. The Annexure to Cost Audit Report should be signed by:

- (A) The secretary and the Finance Officer
- (B) The Secretary and the CFO of the company
- (C) One Director and one secretary
- (D) The CFO and the Managing Director

#(C) One Director and one secretary.

*Pursuant to Rule 6(4) of the Companies(Cost Records and Audit)Rules, 2014 - Form CRA3*

68. Financial Position and Ratio Analysis as required are to be stated in :

- (A) Para 4 , Part D of the Annexure to Cost Audit Report.
- (B) Para 3, Part D of the Annexure to Cost Audit Report.
- (C) Para 2, Part D of the Annexure to Cost Audit Report.
- (D) Para 1, Part D of the Annexure to Cost Audit Report.

#(A) Para 4 , Part D of the Annexure to Cost Audit Report.

*Pursuant to Rule 6(4) of the Companies(Cost Records and Audit)Rules, 2014 - Form CRA3*

69. Which of the following is not a professional misconduct as per the First Schedule of the CWA Act, 1959 in relation to Cost Accountants in practice:

- (A) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute
- (B) secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business
- (C) solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means.
- (D) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

#(D) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;  
*this is professional misconduct as per Second schedule Part 1 of the CWA Act 1959.*

70. In case of machinery involving technical help in installation, such expenses for installation are part of:

- (A) Selling and Distribution Overheads (B) Cost of production  
(C) Any of the above. (D) None of the above.

#(B) Cost of production.

*This is as per CAS 15 related to Selling and Distribution Overheads.*

71. CAS 16 deals with :

- (A) Pollution control cost (B) Packing material cost  
(C) Depreciation and Amortisation (D) Interest and Financing charges

#(C) Depreciation and Amortisation.

*The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Depreciation and Amortisation with reasonable accuracy.*

72. Cost Auditing Standard 101 deals with:

- (A) Planning an audit of cost statements;  
(B) Cost audit documentation;  
(C) Overall objectives of the independent cost auditor  
(D) Knowledge of business, its processes and the business

# (A) Planning an audit of cost statements;

*The objective of this Standard is to guide the members in planning for the audit of cost statements so that it is performed in an efficient and effective manner.*

73. A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is \_\_\_\_\_.

- (A) 735.27 kg. (B) 725.27 kg. (C) 745.27 kg. (D) 755.27 kg.

# (B) 725.27 kg.

*Output at Ring Frame =  $1000 \times (100-92)\% \times (100-94)\% \times (100-96)\% \times (100-96)\% \times (100-91)\%$   
= 725.27 kgs.*

74. Gross Sales 16500 lacs, Excise Duty 1240 lacs, Increase in stock 42 lacs, Cost of raw materials 6250 lacs, Power 2220 lacs, other overheads 215 lacs, Value Added is:

- (A) 15260 lacs (B) 6617 lacs (C) 6533 lacs (D) 15302 lacs.

#(B) 6617 lacs.

*Value Addition = Gross sales less Excise Duty Add Increase in stock less Cost of Raw materials less Power less Other Overheads*

*= 16500 - 1240 + 42 - 6250 - 2220 - 215 lacs = 6617 lacs.*

75. Management Audit report is submitted to :

- (A) Cost Audit Branch (B) Audit Committee  
(C) Central Government (D) Management of concern.

#(D) Management of concern

*Management audit undertakes examination of the effectiveness of management in controlling the total activities of the organisation in the accomplishment of the organisation objectives.*

**76. The consumer service audit critically examines:**

**(A) Outstanding payment of consumers.**

**(B) Price consumers are ready to pay for particular product/service**

**(C) And appraise management of business enterprise of responsibility towards consumers.**

**(D) Demand of a product by consumers.**

**# (C) And appraise management of business enterprise of responsibility towards consumers.**

*The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product quality and services by making available the products and services of the right qualities at the right time, in right quantity, at the right place and right price.*

**77. Fill in the blanks: (answer in bracket)**

1. Cost audit was initially introduced in the year \_\_\_\_\_ .(1965)
2. According to CAS 8 on utilities the cost of maintaining stand-by utilities is \_\_\_\_\_ cost. (committed)
3. Efficiency audit ensures \_\_\_\_\_ return on Capital Employed.(optimum)
4. Equalized transportation cost means \_\_\_\_\_ transportation cost incurred during a specified period. (average)
5. Value addition is the difference between \_\_\_\_\_ and the cost of bought out materials and services. (net output value)
6. CAS 5 deals with \_\_\_\_\_ (equalized cost of transportation).
7. \_\_\_\_\_ ensures that every rupee invested in capital or other fields gives optimum returns. (Efficiency)
8. Variances due to abnormal reasons \_\_\_\_\_ form part of cost. (will not. note: This is as per Generally Accepted Cost Accounting Principles)
9. XBRL is a language based on \_\_\_\_\_ (XML family of languages)
10. Costing Taxonomy is best defined as a \_\_\_\_\_ (dictionary)
11. Management audit requires \_\_\_\_\_ approach.(inter-disciplinary)
12. ISO 9000 certification is an \_\_\_\_\_ service. (assurance)
13. Corporate objectives represent the \_\_\_\_\_ for the organization as laid down by itself (charter)
14. The two techniques available for Social Cost Benefit Analysis are \_\_\_\_\_ and \_\_\_\_\_ . (UNIDO, Little and mirrlee's approach.)
15. Energy audit means the monitoring of energy efficiency of different \_\_\_\_\_ and \_\_\_\_\_ in a plant. (equipment, process)
16. The main emphasis of Management Audit is problem \_\_\_\_\_ rather than problem \_\_\_\_\_ (identification, solving)
17. Management audit can be a \_\_\_\_\_ for managerial control.(potent tool)
18. \_\_\_\_\_ cannot be delegated.( Responsibility)
19. A corporate development audit is an \_\_\_\_\_ study of organisation's capabilities. (independent, objective)
20. "Personal Management" is that part of management function which is primarily concerned with the \_\_\_\_\_ within an organization. (human relationship)
21. \_\_\_\_\_ is the evaluation of every resources declared in the industry. (Productivity Analysis.)
22. \_\_\_\_\_ of Companies Act 2013 deals with Internal Audit. (Section 138)

23. An audit programme is a \_\_\_\_\_ plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and the estimated time required. (detailed)
24. An audit report is a \_\_\_\_\_ where internal audit summarizes its work on an audit and reports its findings and recommendations based on that work. (formal document)
25. Section 17 (2) of the \_\_\_\_\_ specifically requires the auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society. (co-operative societies Act, 1912)
26. Field Balance Sheet Approach to audit can be applied in audit of \_\_\_\_\_ (self-help Group)
27. The Local bodies in India are broadly classified into \_\_\_\_\_ categories. (two)
28. Audit of government \_\_\_\_\_ is one of the major components of government audit conducted by the office of C & AG. (expenditure)
29. Under 'propriety audit', the auditors try to bring out cases of \_\_\_\_\_ expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. (improper, avoidable, or in fructuous)
30. Statutory corporations are created by \_\_\_\_\_ statutes (specific)
31. The auditor of a government company is appointed by the \_\_\_\_\_ (C&AG)
32. The Cost Audit Report is required to be in conformity with the 'Cost Auditing Standards' as referred to in section \_\_\_\_\_ of the Companies Act, 2013. (148)
33. Power generation, Telecommunication services fall in \_\_\_\_\_ sector as per Companies (Cost Records and Audit) Rules, 2014. (Regulated)
34. The FOREX component of imported material cost shall be converted at the rate on the date of the \_\_\_\_\_. (Transaction)
35. The review of Organization Plan, Policies, Structure are done through \_\_\_\_\_ audit. (Management)
36. Cost Accounting Standard on Cost of Service Cost Centre is dealt in \_\_\_\_\_. (CAS – 13)
37. The Companies are required to maintain Cost Records if turnover exceeds \_\_\_\_\_ crores or more during immediately preceding Financial Year in respect of the products and services specified. (INR 35 crores)
38. Finance costs incurred in connection with the acquisition of materials \_\_\_\_\_ form part of material cost. (Shall not)
39. The systematic examination, analysis and appraisal of management's overall performance is done in \_\_\_\_\_ audit. (Management Audit)
40. Cost Accounting Standard on Repairs and Maintenance Cost is dealt in \_\_\_\_\_. (CAS-12)
41. Any casual vacancy in the office of a cost auditor, shall be filled by the Board of Directors within \_\_\_\_\_ days of occurrence of such vacancy. (30)
42. Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 deals with the \_\_\_\_\_. (applicability of Cost Audit)
43. Abnormal Loss due to flood or earthquake is charged to \_\_\_\_\_. (Costing Profit / Loss Account)
44. Financial Position and Ratio Analysis has to be computed based on \_\_\_\_\_ data. (Audited Financial)
45. Responsibility Centre is \_\_\_\_\_ group of control centres. (a personalized)
46. The Cost Audit Report along with the observations shall be filed in Form CRA \_\_\_\_\_. (CRA3)

47. The excisable goods not sold but used for consumption for manufacture in the production of other articles should be valued at \_\_\_\_\_ of cost. (110%)
48. 'Sugar and Industrial Alcohol' belong to \_\_\_\_\_ sector for the purpose of Application of Cost Records. (Regulated)
49. Administration Overheads is dealt in CAS \_\_\_\_\_. (11)
50. Cost Auditing Standard 102 deals with \_\_\_\_\_. (Cost Audit Documentation)

**78. State whether following statements are “True” or “False” with reasoning/ justification for your answer. (Answer within bracket)**

1. Cost Audit is synonymous with efficiency audit. (True. The Cost audit Report mainly comment on the efficiency of the company namely, utilization aspect of the factors of production)
2. Donations given to Charitable Institutions should not form part of Cost Accounts. (true. expenses on account of donations is purely financial in nature, hence excluded from Cost Accounts.)
3. Market research cost is not a part of Research and Development Cost. (true. market research is part of selling and Distribution cost.)
4. CAS 9 deals with indirect material cost. (false. CAS 9 deals with packing material cost.)
5. Part B of the Annexure to Cost Audit Report relates to service sector. (false. part B of the annexure to cost audit report relates to manufacturing sector)
6. Quantitative Information as part of Annexure to Cost Audit Report needs to be shown for Current Year only. (false. quantitative information as part of annexure to cost audit report needs to be shown for current Year and previous Year.)
7. Excess recovery of Excise is income purely financial in nature. (the statement is true.)
8. Profit reconciliation for the company as a whole is dealt in Part C of the Annexure to Cost Audit Report. (False. Profit reconciliation for the company as a whole is dealt in Part D of the Annexure to Cost Audit report.)
9. CAS 24 deals with treatment of Revenue in cost statements.(true)
10. As per Companies (Cost Records and Audit) Rules, 2014, Profit Reconciliation (for company as a whole information is required to be given for Current Year and Previous 2 years. (false. information need to be given for Current Year and Previous Year only)
11. There are no fixed items of evidence to be checked by Management Auditor. (true. a management Auditor has to rely more on his experience and acumen to identify areas of review.)
12. Dumping is an ‘illegal’ practice. (false. Dumping is an ‘unfair’ practice.)
13. Assurance engagements involve three separate parties. (true. the parties are a public accountant in practice, a responsible party and intended users.)
14. The main emphasis of Management Audit is problem identification rather than problem solving. (true Management Audit pinpoints the areas requiring attention of management, it evaluates the existence of well defined objectives , it seeks to review appraise and evaluate the corporate plans and policies based on certain standards of objectivity.)
15. Zero base budget (ZBB) system was modeled by Peter A. Woodcock. (False. ZBB System was modeled by peter A. Phyrh.)
16. There is no need for Management Audit Programme. (false. management audit programme is prerequisite to conduct audit and help the auditor to cover the entire area of function thoroughly.)

17. management audit is voluntary (True. It is undertaken by Management as it helps in effective functioning of every area of operations coming under management perview.)
18. Important point in Corporate planning is SWOT analysis. (True. A SWOT-strengths, weaknesses, opportunities and threats analysis can help identify and understand key issues affecting the business)
19. Management Audit Report is to be submitted to Cost Audit Branch. (false. management audit report is to be presented to the management.)
20. The concept of Financial Audit was developed by T. G Rose. (false. T. G. rose developed the concept of Management Audit as a logical system of evaluating the quality of Management.)
21. Internal auditing is one time activity. (False. It is a continuous and systematic process of examining and reporting the operations and records of a concern.)
22. Internal Audit can be performed by employees of an organization. (true. internal audit is a management tool performed by employees of the organization or external agencies specially assigned for this purpose.)
23. Internal Audit is not discussed in Companies Act 2013 (false. internal audit is discussed in section 138 of companies act 2013.)
24. Internal audit is applicable for every listed company. (true. as per rule 13 of companies (accounts) Rules, 2014, every listed company has to appoint internal auditor.)
25. Internal control system can be classified in three types. (True. Preventive Control, Detective Control and corrective control.)
26. There is no requirement of Audit Working Papers while conducting audit and they only result in loss of time. (false. audit working papers are the record of the planning and execution of the audit engagement. Auditors retain a set of working papers for each audit engagement for each year.)
27. Audit working papers are property of the company.(False. Working papers are the property of the auditor.)
28. Co-operative auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society while conducting internal audit. (true. section 17 (2) of the cooperative Societies Act, 1912 specifically requires the auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society.)
29. Internal control is very essential in maintenance of Hotel accounts. (true. pilferage is one of the greatest problems in any hotel and it is extremely important to have a proper internal control to minimize the leakage.)
30. Every listed Company should have Audit Committee. (True. The Board of directors of every listed company and the certain classes of companies, as prescribed under Rule 6 of Companies (Meetings of Board and its powers) Rules, 2014 shall constitute an Audit Committee.)
31. Part-D Para-4 of the Annexure to cost Audit Report under the companies (Cost Records and Audit) Rules 2014 deals with Profit Reconciliation (for the company as a whole).(False)
32. Cost Audit and Management Audit are one and the same. (False)
33. Main objective of Internal Audit is to prevent errors and frauds. (False)
34. Government Audit does not comment on economy and efficiency other than viewing on fairness of financial statement. (False)
35. A Limited liability partnership firm registered under the Limited Liability Partnership Act, 2008 can be appointed as Cost Auditor of a company. (True)

36. As per CAS-6 the Forex Component of imported material is converted at the rate on date of payment. False (The statement is false. As per CAS6, The forex component of imported material is converted at the rate on date of transaction)
37. Operational Audit is a Micro Level Management Audit. True (The statement is true. The objective of operational audit is to appraise the effectiveness and efficiency of a division, activity, or operation of the entity in meeting organizational goals).
38. Exemptions from application of the Rules are provided to Companies whose revenue from exports, in foreign exchange, exceeds 50% of total revenue and companies operating from Special Economic Zones. False (The statement is false. The requirement of Cost Audit under these rules shall not apply to companies whose revenue from exports in foreign exchange exceed 75% of total revenue and companies operating in special economic zone).
39. XBRL is a language based on XML family of languages. True (The statement is true. XBRL is an XML based technology and can be used to store or transport data).
40. In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers need not be added to the cost of utilities. False (The statement is false. In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to cost of utilities)
41. CAS 11 deals with Packing Material Cost. (False)
42. Interest and Finance charges are part of cost of production. (False)
43. All expenses that can be identified or linked with the cost object are termed as Direct Expenses. (True)
44. A favourable budget variance is always an indication of efficient performance. (False)
45. A job worker listed under Table A or B of the Rules and paying Excise Duty on behalf of the principal need not maintain cost records even if the transactions exceed the threshold limit. (False)
46. The Cash Discount allowed on Cash Sales will be charged to Selling and Distribution overheads. (False)
47. 'Related Party Transaction' means transfer of resources or obligations among persons related by blood relations. (False)
48. The Audit Committee should recommend appointment and remuneration of the Auditor and also review and monitor the Auditor's independence and performance. (True)
49. Maximum amount of penalty payable by a Cost Auditor for non-compliance with the provisions of Companies (Cost Audit Report) Rules, 2014 is Rs. 5,000. (False)

### 79.Short questions

1. What you understand by “True and Fair Cost of Production.”?  
ans: The concept of “True and Fair Cost of Production” is used in the context of cost audit wherein the cost auditor has to state whether in his opinion the company’s cost accounting records have been kept so as to give a true and fair view of the cost of production, processing and marketing of the product.
2. What constitutes the cost records under Rule 2(e)?  
ans: Cost records “means books of account and other records relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these rules. The Act here refers to The Companies Act 2013. Rule refer to Cost (Records and Audit) Rule, 2014.

3. Define Cost Auditor.

ans: Rule 2(c) of the Companies (Cost Records and Audit) Rules , 2014 means a Cost Accountant in practice, as defined in clause (b), who is appointed by the Board.

4. How would you treat demurrage charges as per CAS 15?

ans: As per CAS 15 relating to Selling and Distribution overheads, any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the selling and distribution overhead.

5. How is cost computed if service is provided by contractors as per CAS 13?

ans: Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services. Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.

6. How would you treat Employee share options under Generally Accepted Cost Accounting Principles ?

ans: Cost of employee share options is treated as part of employee cost provided the same is not a notional cost and involves an actual cash outlay.

7. What is XBRL?

ans: XBRL (eXtensible Business Reporting Language) is a language based on XML (Extensible Markup Language) family of languages. It is an open standards-based reporting system that is built to accommodate the electronic preparation and exchange of business reports around the world using internet as a medium. It has been defined specifically to meet the requirements of business and financial information.

8. How would you treat the abnormal cost?

ans: The abnormal cost must be excluded from computation of Cost .

9. How will you treat an item of Direct Expenses that does not meet the test of materiality as per CAS 10?

ans: If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.

10. Can a Cost Accountant who is appointed as the Concurrent Auditor of a company be appointed as Cost Auditor of the same company?

ans: A Concurrent Auditor may be viewed as a person holding an office of profit of the company and so cannot be appointed as Cost Auditor of the same company.

11. How should a Cost Auditor evaluate MIS of an organization?

ans: A Cost Auditor should take into consideration the following aspects while evaluating MIS of an organization: a) Content, quality and source of information; b) Flow of information correlation of information in decision areas.

12. What is productivity audit?

ans: Productivity audit is the process of monitoring and evaluating organizational practices to determine whether functions, programmes, and organization itself are utilizing resources effectively and efficiently so as to accomplish objectives.

13. What do you understand by environment audit?

ans: Environment Audit is a systematic , documented, periodic and objective review by related entities , of facility operations and practice related to meeting environment requirements.

14. a management audit team should be multidimensional. discuss.

ans: As a management auditor is concerned with all aspects of business and the organization , ranging from manufacture to marketing and finance , the management audit team should be multidisciplinary to make multidimensional approach to audit function.

15. What are the Management Audit Questionnaires?

ans: A management audit questionnaire is an important tool for conducting the management audit. It is through these questionnaires that the auditors make an inquiry into important facts by measuring current performance. Such questionnaires aim at a comprehensive and constructive examination of an organisation's management and its assigned tasks.

16. What is Energy Audit?

ans: Energy auditing is defined as an activity that serves the purposes of assessing energy use pattern of a factory or energy consuming equipment and identifying energy saving opportunities.

17. Write short not on "Customer Costing in Service Sector".

ans: For customer costing purpose, the cost are divided into following categories. These are:  
Customer specific costs-Like the cost of express conveyer to a client/customer who requests oversight delivery of some important document. Customer line categories- these are the costs which are broken into the broad categories of customers and not individual customer.  
Company costs- those costs which are not allocated to either customer line or individual customers but charge to company. The example is the cost of advertisement to promote sale of service.

18. What is "Consumer Services " Audit?

ans: Consumer Service Audit is based on the philosophy that role of business should be quality of life through its contribution in terms of better product quality and services.

19. What to you understand by Corporate Strategy?

ans: Corporate strategy or policy is the strategy that determines the means for utilizing resources in the areas of production, finance, research and development, personnel, and marketing to reach the Corporate Objectives.

20. What is "Personnel Management"?

ans: "Personnel Management" is that part of the management function which is primarily concerned with the human relationships within an organization. Its objective is essentially the maintenance of those relationships, which enable all those engaged in the undertaking to make their maximum personal contribution to the effective working of that undertaking.

21. What do you understand by Audit Report?

ans: An audit report is a formal document where internal audit summarizes its work on an audit and reports its findings and recommendations based on that work. Audit report will be an indicator of the usefulness of the internal audit functioning in the organization.

22. Which section of Companies Act deals with Internal Audit?

ans: Section 138 of the Companies Act 2013 deals with provisions of Internal Audit.

23. What is Audit programme?

ans: An audit programme is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and the estimated time required. To be more comprehensive, an audit programme is written plan containing exact details with regard to the conduct of a particular audit.

24. State the functions of summary report to Top Management.

ans: Summary reports to management usually would have two distinct functions – (i) They would tell what the internal audit department has accomplished when compared to what was planned. (ii) They would show conclusions of the auditors in a summarised form.

25. How do you classify Local Bodies?

ans: The Local bodies in India are broadly classified into two categories. The local bodies constituted for local planning, development and administration in the rural areas are referred as Rural Local Bodies (Panchayats) and the local bodies, which are constituted for local planning, development and administration in the urban areas are referred as Urban Local Bodies (Municipalities).

26. What do you understand by Propriety Audit in the Context of Government Audit.

ans: Under 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.

27. How are NGO(s) incorporated?

ans: Non-Governmental Organisations are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of India. NGO's can also be incorporated as a company under section 8 of the Companies Act, 2013.

28. What is the first step in audit of Educational Institutions?

ans: To examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed thereunder.

29. What are the two types of Audit files?

ans: In case of recurring audits, some working papers files may be classified into permanent audit files and current audit files: while the former is updated with the Information of continuing importance, the latter contains information relating to audit of a single period.

30. Who can be appointed as Internal Auditor as per the Companies Act, 2013?

Ans: AS per Section 138 of the Companies Act, 2013 an internal auditor, shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

31. The Cost Auditor of a company was offered to act as ERI (e-Return Intermediary) for filing income tax related matter on behalf of one of its subsidiary company. Can the Cost Auditor accept the assignment?

Ans: Any person who is engaged in consulting and providing specialised services to the company and its subsidiary companies becomes ineligible to act as cost auditor. (Sec. 141 and 144 of the Companies Act, 2013). The Cost Auditor cannot accept the assignment as long as he remains appointed as cost auditor of the company.

32. Explain 'Corporate Development Audit.'

Ans: A corporate development audit is an independent objective study of an organization's capabilities. Corporate development audit is a comprehensive task to assist the corporate management in various aspects of development through a process of systematic review and evaluation of long-term strategies of the company.

33. Whether the companies (Cost Records and Audit) Rules 2014 is applicable to a company which is generating electricity for captive use?

Ans: The companies (Cost Records and Audit) Rules 2014 is applicable to a company which is engaged in Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003); other than for Captive generation.

34. How would you treat demurrage charges as per CAS-15?

Ans: As per CAS-15 relating to selling and distribution overheads, any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the selling and distribution overhead.

35. What is the time limit within which the cost Auditor of the company should submit his report?

Ans: As per rule 6 (5) of the Companies (Cost Records and Audit) Rules 2014, every Cost Auditor shall forward his report to the Board of Directors of the Company within a period of one hundred and eighty days from the closure of the financial year to which the report relates.

36. Whether all petroleum products are covered under the Companies (Cost Records and Audit) Rules, 2014?

Ans: The Companies (Cost Records and Audit) Rules, 2014 is applicable to all petroleum products regulated by the Petroleum And Natural Gas Regulatory Board Act, 2006 (19 of 2006) and covered under CETA Heading No. 2709 to 2715.

37. Explain the tenure of a Cost Auditor of the Company.

Ans: Every cost Auditor appointed as per Rule 6 (1) & (2) shall continue in such capacity till the expiry of 180 days from the closure of the financial year or till he/she submits the cost audit report for the financial year for which he/she has been appointed. [Rule 6(3)]

38. Who is the approving authority to whom the Cost Audit report shall be submitted by the Cost auditor?

Ans: The report on the audit of cost records shall be submitted by the Cost Auditor to the Board of Directors of the Company. [Rule 6(5)]

39. Whether each and every transactions with Related Parties is to be disclosed under (Part - D, Para - 5) of Annexure to the Cost Audit Report?

Ans: Details of Related Party Transaction are required to be provided in respect of each Related Party and each Product/Service for the year as a whole and not transaction wise.

40. Define Corporate Branding.

Ans: Corporate Branding: Corporate Branding is the process of creating a favorable reputation of the company and its constituent elements. It is an important organizational resource that enables to create, strengthen and sustain competitive advantage.

41. What means 4-digit CETA Code as explained in the Companies [Cost Records and Audit] Rules, 2014?

Ans: Rule 2 (aa) of the Companies (Cost Records and Audit) Rules 2014 states that "Central Excise Tariff Act Heading" means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985 [5 of 1986] in respect of goods a description in list of tariff provisions accompanied by a four digit number and includes all sub-headings of tariff items the first four-digits of which correspond to that number.

42. How the valuation is to be done for goods captively consumed in one's own factory?

Ans: Rule 8 of the Central Excise Valuation Rules provides that where the excisable goods are not sold but are used for consumption by the assessee or on his behalf in the production or manufacture of other articles; the value shall be 110% of the cost of production or manufacture of such goods. The procedure for determination of cost of production for captive consumption is laid down in CAS(4) [Cost Accounting Standards-4] issued by the Council of the Institute of Cost Accountants of India.

43. What are 'Industry-specific Operating Expenses'?

Ans: Industry-specific Operating Expenses are those which are peculiar to a specific industry. For example, Telecommunications industry shows expenses such as Network Operating cost, License fee, Radio Spectrum charges, Microwave charges, etc., which are peculiar to this industry. The industry-specific operating expenses shall have to be identified and reported in the abridged cost statement.

44. How to treat overtime premium as per CAS 7 related to Employee Cost?

Ans: Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and specific circumstances requiring such overtime.

45. State the broad objectives of 'Operational Audit'.

Ans: Operational Audit is an organized search for the ways to improve efficiency and effectiveness. It has the broad objectives of a) Appraisal of Controls, b) Evaluation of Performance, c) Appraisal of Management Objectives, and d) Appraisal of Organization Structure. All large organizations conduct Operational Audit for better management and higher profitability.

46. State the factors on which audit documentation will depend.

Ans: The content and form of audit documentation will depend on a number of factors, such as (a) the size and the complexity of the operations of the audited, (b) the extent of computerization of the cost records, (c) the assessed risks of material misstatement of costs, (d) the cost audit methodology and tools used, and (e) the nature of the audit procedure to be performed.

47. What is the Central Excise Tariff Act Heading as per the Companies (Cost Records and Audit) Rules, 2014?

Ans: Central Excise Tariff Act Heading as per Companies (Cost Records and Audit) Rules, 2014, means the Heading as referred to in the Additional Notes as per the First Schedule of the Central Excise and Tariff Act. 'Heading', in respect of 'goods' means a description in respect of tariff provisions accompanied by a four-digit number and includes all sub-headings of all tariff item the first four digits of which correspond to that number.

48. State the meaning of the term 'Key Performance Indicators'.

Ans: Key Performance Indicators are simply the variables, independent or interdependent, in respect of which goals can be set and performance can be measured to assess whether it is in furtherance of the enterprise objectives. These may be quantitative, qualitative, actionable, or trends. For evaluation of performance, the choice of the indicators should be made correctly in tune with the objectives.

49. What is meant by 'Cost Records'?

Ans: As per Rule 2 (e) the Companies (Cost Records and Audit) Rules 2014, 'cost records' means 'books of accounts relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in Section 148 of the Act, and these Rules'. There cannot be any exhaustive list of cost accounting records. Any transaction statistical, quantitative or other details - that has a bearing on the cost of the product /activity is important and form part of the cost accounting records. Cost records are to be kept on regular basis to make it possible to "calculate per unit cost of production/operations, cost of sales and margin for each of its product for every financial year on monthly/quarterly/half-yearly/annual basis"

50. How the Demurrage Charges be treated as per the CAS 15?

Ans: The CAS 15 deals with Selling and Distribution Overhead. As per CAS 15 any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the selling and Distribution Overhead.

51. What are the objectives of the Cost Audit Standard 104?

Ans: The objective of the Cost Audit Standard 104 is to enable the cost auditor to have knowledge of the client's business, which is sufficient to identify and understand the events, transactions and practices that in the cost auditor's judgment may have a significant effect on the examination of the cost statements or on the preparation of the Cost Audit Report.

52. Explain the 'Ageing Analysis' of Receivables.

Ans: Accounts Receivable Ageing Analysis is a periodic report that categorizes a company's accounts receivables according to the length of the time an invoice has been outstanding. It is used as a gauge to determine the financial health of a company's customers. If an account receivables ageing demonstrates that a company receivables are being collected much slower than normal, this is a warning sign that business may be slowing down or that the company is taking greater credit risks in its sales practices.

53. What is the scope of Government Audit?

Ans: Governmental Audits are done by the Comptroller and Auditor general of India for financial statements of Government as per some declared standards. However, it goes a step beyond those standards that are applicable to audit of financial statements. The scope of a governmental audit is composed of three elements. 1. Financial Compliance 2. Economy and Efficiency 3. Results. The typical definition of a financial audit would not include the elements 2 and 3. These are Operational Auditing Techniques.

54. State the basic objective to prepare a report on Performance Appraisal.

Ans: The basic objective to prepare a report on Performance appraisal is to provide an actionable insight into costs and profitability for the management in strategic and operational context. It aims at discovering various drivers of costs and profitability and their impact on the selected performance variables. It would help the organisations:

- To improve profits and profitability
- To optimize resource allocation
- To optimize the product and Services Portfolio

**80. Choose the correct answer with short justification/working.**

1. Part C of the Annexure to the Cost Audit Report in CRA 3 deals with \_\_\_\_\_.
  - (a) Manufacturing Sector
  - (b) Service Sector
  - (c) Regulated Sector
  - (d) Unregulated Sector
  
2. Cost Accounting Standard 8 is a Cost Accounting Standard on \_\_\_\_\_.
  - (a) Employee Cost
  - (b) Utilities Cost
  - (c) Pollution Control Cost
  - (d) Selling and Distribution Cost
  
3. Under the Generally Accepted Cost Accounting Principles, the cost of cane supplied from own farm to the sugar mill is treated as \_\_\_\_\_.
  - (a) Direct Materials Cost
  - (b) Indirect Materials Cost
  - (c) Production Overhead
  - (d) Administrative Overhead
  
4. Constitution of Audit Committee by the Board of Directors is mandatory for \_\_\_\_\_.
  - (a) all companies
  - (b) all listed companies only
  - (c) all listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only
  - (d) all public companies having turnover of Rs. 100 crore or more only
  
5. Cost Auditing Standard 102 deals with \_\_\_\_\_.
  - (a) planning an Audit of Cost Statements
  - (b) Cost Audit Documentation
  - (c) knowledge of process and business
  - (d) overall objectives of the Independent Cost Auditor
  
6. As per the Central Excise Valuation Rules 2000, the assessable value of goods used for captive consumption is \_\_\_\_\_.
  - (a) at actual cost of production of such goods
  - (b) at marginal cost of production of such goods
  - (c) at 110% of cost of production of such goods
  - (d) at market price of such goods
  
7. A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is \_\_\_\_\_.
  - (a) 730.27 kg.
  - (b) 725.27 kg.
  - (c) 742.27 kg.
  - (d) 749.97 kg.

8. Operational Audit can lead to better management with the focus on \_\_\_\_\_.  
(a) transaction-based analysis for fraud prevention  
(b) compliance of rules  
(c) risk identification, process improvement  
(d) budget monitoring
9. A shoe manufacturing company has a plant capacity of producing 700 shoes per shift. During the year of 300 working days, 3 shifts of 8 hours with half-hour recess per shift, it produces 35.91 lakh shoes. The Normal Capacity Utilization percentage is \_\_\_\_\_.  
(a) 82%  
(b) 76%  
(c) 74%  
(d) 78%
10. Propriety Audit in the context of Government Audit seeks to ensure that \_\_\_\_\_.  
(a) public money are not spent for the benefit of a particular person  
(b) public officer should exercise same vigilance as in respect of expenditure of his/her own money  
(c) no authority should pass an order which will be directly or indirectly to its own advantage  
(d) All the above
11. The Cost Accounting Standard 15 is a Cost Accounting Standard on \_\_\_\_\_.  
(a) Employee Cost  
(b) Utilities Cost  
(c) Pollution Control Cost  
(d) Selling and Distribution Overheads Cost
12. Overall Objectives of the independent Cost Auditor and conduct of an Audit in accordance with Cost Auditing Standard is dealt in \_\_\_\_\_.  
(a) Cost Auditing Standard 101  
(b) Cost Auditing Standard 102  
(c) Cost Auditing Standard 103  
(d) Cost Auditing Standard 104
13. 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 (Eng., Procurement, Constn.) contract

14. A manufacturing unit showed, during the Financial Year 2016-17, the following financial data (in Rs. lakh): Net Sales 1,250, Export Incentives 85, Other income 106, Adj. of Finished Stock (+) 95, Materials 634, Salaries 425, Overheads 101.8, and Tax 52.6. The Value Added as per Rules is (in Rs. lakh) \_\_\_\_\_.
- (a) 946
  - (b) 796
  - (c) 755
  - (d) 688
15. Royalty paid on production Rs. 35,000, Job Charges Rs. 20,000, Special Design Charges Rs. 20,000, Software Development Charges related to Production Rs. 27,000, and Travelling abroad for Training Rs. 25,000 The Direct Expenses as per CAS 10 is Rs. \_\_\_\_\_.
- (a) 92,000
  - (b) 1,00,000
  - (c) 1,02,000
  - (d) 1,27,000
16. Operational Audit can lead to better management with the focus on \_\_\_\_\_.
- (a) Transaction-based analysis for Fraud Prevention
  - (b) Compliance of Rules
  - (c) Risk Identification, Process Improvement
  - (d) Budget Monitoring
17. Penalty paid to PF authorities is \_\_\_\_\_ in Employee Cost.
- (a) included
  - (b) excluded
  - (c) based on individual case
  - (d) partly included
18. Item appearing only in Cost Records is \_\_\_\_\_.
- (a) Profit on Sale of Assets
  - (b) Interest Received
  - (c) Loss on Sale of Assets
  - (d) Notional Interest on Capital
19. \_\_\_\_\_ Analysis is evaluation of every resources declared in the industry.
- (a) Capacity
  - (b) Energy
  - (c) Productivity
  - (d) Efficiency

20. Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the Second Schedule of The CWA Act, 1959?
- (a) He/she fails to invite attention to any material departure from the generally accepted procedure of costing and pricing applicable to the circumstances.
  - (b) He/she does not exercise due diligence or is grossly negligent in the conduct of his/her professional duties.
  - (c) He/she fails to report a material misstatement known to him/her to appear in a cost or pricing statement with which he/she is concerned in a professional capacity.
  - (d) In the opinion of the Council, he/she brings disrepute to the Profession or the Institute as a result of his/her action whether or not related to his/her professional work.
21. In which CRA Form, is the Cost Audit Report of a company filed with the Central Government? (a) CRA-4
- (b) CRA-3
  - (c) CRA - 1
  - (d) CRA-2
22. CAS 23 deals with .....
- (a) Quality Control
  - (b) Manufacturing Cost
  - (c) Overburden Removal Cost
  - (d) Treatment of Revenue in Cost Statements
23. As per the Cost Auditing Standard 101, the risk of Material Misstatements has two components, viz., .....
- (a) Inherent Risk and Control Risk
  - (b) Detection Risk and Audit Risk
  - (c) Material Risk and Implicit Risk
  - (d) Financial Risk and Explicit Risk
24. As per Part D, Para 4 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on
- (a) Audited Financial Data
  - (b) Cost Record Data
  - (c) Unaudited Financial Data
  - (d) Both (a) and (b)
25. The audit of data or information, depicting social performance of a business in contrast to its normal economic performance as measured in financial audit, is
- (a) Energy Audit
  - (b) Efficiency Audit
  - (c) Social Audit
  - (d) Propriety Audit

26. The figures below are available for Good Luck Limited. Budgeted Production - 900 units, Standard Hours per unit -10, Actual Production – 720 units and Actual Working - 6000 hours. What is the Efficiency Ratio?
- (a) 110%
  - (b) 120%
  - (c) 100%
  - (d) 125%
27. Which of the following is not a Professional Misconduct as per the First Schedule of The CWA Act, 1959, in relation to the Cost Accountants in Practice?
- (a) Pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his/her professional work, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner.
  - (b) Enters into a partnership, in or outside India, with any person other than a Cost Accountant in Practice or such other person who is a member of any other professional body having such qualifications as may be prescribed.
  - (c) Advertises his/her professional attainments or services or uses any designation or expression other than Cost Accountant on professional documents, visiting cards, letter heads or sign boards, unless it is a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of The ICAI or any other institution that has been recognised by the Central Government or may be recognised by the Council.
  - (d) Expresses his/her opinion on cost or pricing statements of any business or enterprise in which, he/she, his/her firm or a partner in his/her firm has substantial interest.
28. Remuneration of the Non-Executive Directors is treated as .....
- (a) Employee Costs
  - (b) Administrative Overheads
  - (c) Salaries and Wages
  - (d) Management Expenses
29. The process of determining the elements which correspond to the lines and the columns in a financial statement and the elements which must be created by extension is called as
- (a) Mapping
  - (b) Name
  - (c) Concept
  - (d) Scaling
30. As per the CAS 23, the activity of Overburden Removal that benefits the identified component of an ore to be mined by the entity is called as .....
- (a) Mining Activity
  - (b) Overburden Removal
  - (c) Stripping Activity
  - (d) Advance Stripping

**Answer:**

1. (B) Service Sector Reason: Part C of the Annexure to the Cost Audit Report in Form CRA 3 pursuant to the Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014, gives quantitative information and abridged cost statement for services in the Service Sector.
2. (B) Utilities Cost Reason: CAS 8 deals with the Cost Accounting Standard on cost of utilities.
3. (A) Direct Material Cost Reason: As per the GACAP, Direct Materials Cost includes cost of procurement and freight inwards of the materials.
4. (iv) (C) All listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only Reason: The Rule covers all listed companies, public companies having capital of Rs. 10 crore and more, annual turnover of Rs. 100 crore and more, outstanding deposits, loans and borrowings of Rs. 50 crore or more.
5. (v) (B) Cost Audit Documentation Reason: The Cost Auditing Standard 102 is to provide guidance to the members in the preparation of audit documentation in the context of the audit of cost statements, records and other related documents.
6. (C) At 110% of cost of production of such goods Reason: Liability of Excise Duty arises as soon as the goods covered under the Excise Duty are manufactured but the Excise Duty is collected at the time of removal or clearance from the place of manufacture even for captive consumption.
7. (B) 725.27 kgs. Reason: Output at Ring Frame =  $1000 \times (100-92)\% \times (100-94)\% \times (100-96)\% \times (100-96)\% \times (100-91)\% = 725.27$  kgs.
8. (C) risk identification, process improvement Reason: The objective is to assist the organization in performing the functions more effectively and economically with focus on the efficiency and the effectiveness of the operations, giving an early warning system for the detection of the potentially-destructive problems.
9. (B) 76% Reason: Available capacity =  $300 \times (8-0.5) \times 3 \times 700 = 47.25$  lakh units  
Actual Capacity Utilization % =  $35.91/47.25 = 76\%$
10. (D) All the above Reason: The objective of Propriety Audit is that public money is not spent for the benefit of a particular person. Public officer should exercise same vigilance as in respect of expenditure of his/her own money and no authority should pass an order which will be directly or indirectly to its own advantage

11. (d) Selling and Distribution Overhead Cost. CAS 15 deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements.
12. (c) Cost Auditing Standard 103. Cost Auditing Standard 103 deals with the overall objectives of the independent cost auditor, the nature and scope of a cost audit and independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with cost auditing standards. It also explains the requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the cost auditing standards.
13. (c) A Company working in Special Economic Zone. As per Rule 4(3) (ii) of the Companies (Cost Records and Audit) Rules 2014 such units would be outside the purview of cost audit.
14. (b) Rs. 796 Lakh. (Sales 1250 + Export Incentive 85 + Adj of Finished stock 95)- (Materials 634) = Rs. 796 Lakh.
15. (d) Rs. 1,27,000 [direct expenses as per CAS 10 = royalty paid on production + Job charges + Special Design Charges + Software development charges related to production + Travelling abroad for training = Rs. (35,000 + 20,000 + 20,000 + 27,000 + 25,000) = Rs. 1,27,000]
16. (c) Risk identification, process improvement: The objective is to assist the organization in performing functions more effectively and economically with focus on efficiency and effectiveness of operations, giving an early warning system for detection of potentially destructive problems.
17. (b) Excluded Penalty paid to PF authorities is not normal cost and hence is excluded as per CAS 7 from employee cost.
18. (d) Notional interest on capital This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.
19. (c) Productivity The Productivity audit is basically an analysis of the productivity of the resources deployed by any organization. It is generally done to generate information about the status of productivity in the organization for the purpose of determining the scale of efficiency and effectiveness of „resource utilization“.

20. (d) Bringing disrepute to the profession or the institute is not considered a misconduct as per the Second Schedule of the CWA Act 1959. It is a misconduct as per the First Schedule, Part IV of the Act.
21. (a) Reason: Pursuant to Section 148 (6) of the Companies Act, 2013, and Rule 6 (6) of the Companies (Cost Records and Audit) Rules, 2014, the Cost Audit Report is to be filed in Form CRA-4 with the Central Government.
22. (c) Reason: Cost Accounting Standard (CAS) 23 is issued by the Council of The Institute of Cost Accountants of India on "Overburden Removal Cost". It is applicable from 1st April, 2017.
23. (a) Reason: As per the Cost Auditing Standard (CAS-101) on Planning an Audit of Cost Statements, the risk of material misstatement has two components, viz., Inherent Risk and Control Risk.
24. (a) Reason: As per part D, para 3 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on Audited Financial Accounts.
25. (c) Reason: Social Audit is generally defined to be the audit of data or information depicting social performance of a business in contrast to its normal economic performance as measured in financial audit. A lot of research and experimentation have been conducted to devise techniques or models, which can measure the contribution of an enterprise to the Society.
26. (b) Reason: Efficiency ratio =  $\frac{\text{Standard Hours of actual Production}}{\text{Actual Hours Worked}} \times 100 = \frac{720 \times 10}{6,000} \times 100 = 120\%$
27. (d) Reason: As per the Second Schedule Part 1 of the Cost and Works Accountants Act, 1959, a Cost Accountant in Practice shall be deemed to be guilty of Professional Misconduct, if he/she expresses his/her opinion on cost or pricing statements of any business or enterprise in which, he/she, his/her firm or a partner in his/her firm has substantial interest. All the other options are Professional Misconduct as per the First Schedule of The Cost and Works Accountants Act, 1959 in relation to the Cost Accountants in Practice.
28. (b) Reason: As per the Generally Accepted Cost Accounting Principles (GACAP), Remuneration of the non-Executive Directors will not be considered as part of Employee Costs but will be treated as part of Administrative Overheads.
29. (a) Reason: As per the XBRL, Mapping is the process of determining the elements which correspond to the lines and the columns in a final statement and the elements which must be created by extension.
30. (c) Reason: As per the Cost Accounting Standard on Overburden Removal Cost, the Stripping Activity refers to the activity of overburden removal that benefits the identified component of an ore to be mined by the entity.

**81. Choose the correct answer with short justification/working.**

**(i) In which CRA Form, is the Cost Audit Report of a company filed with the Central Government?**

- (a) CRA-4                      (b) CRA-3                      (c) CRA – 1                      (d) CRA-2

**(ii) CAS 23 deals with .....**

- (a) Quality Control                      (b) Manufacturing Cost  
(c) Overburden Removal Cost                      (d) Treatment of Revenue in Cost Statements

**(iii) As per the Cost Auditing Standard 101, the risk of Material Misstatements has two components, viz., .....**

- (a) Inherent Risk and Control Risk                      (b) Detection Risk and Audit Risk  
(c) Material Risk and Implicit Risk                      (d) Financial Risk and Explicit Risk

**(iv) As per Part D, Para 4 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on**

- (a) Audited Financial Data                      (b) Cost Record Data  
(c) Unaudited Financial Data                      (d) Both (a) and (b)

**(v) The audit of data or information, depicting social performance of a business in contrast to its normal economic performance as measured in financial audit, is**

- (a) Energy Audit                      (b) Efficiency Audit                      (c) Social Audit                      (d) Propriety Audit

**(vi) The figures below are available for Good Luck Limited. Budgeted Production - 900 units, Standard Hours per unit -10, Actual Production - 720 units and Actual Working - 6000 hours. What is the Efficiency Ratio?**

- (a) 110%                      (b) 120%                      (c) 100%                      (d) 125%

**(vii) Which of the following is not a Professional Misconduct as per the First Schedule of The CWA Act, 1959, in relation to the Cost Accountants in Practice?**

- (a) Pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his/her professional work, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner.  
(b) Enters into a partnership, in or outside India, with any person other than a Cost Accountant in Practice or such other person who is a member of any other professional body having such qualifications as may be prescribed.  
(c) Advertises his/her professional attainments or services or uses any designation or expression other than Cost Accountant on professional documents, visiting cards, letter heads or sign boards, unless it is a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of The ICAI or any other institution that has been recognised by the Central Government or may be recognised by the Council.  
(d) Expresses his/her opinion on cost or pricing statements of any business or enterprise in which, he/she, his/her firm or a partner in his/her firm has substantial interest.

**(viii) Remuneration of the Non-Executive Directors is treated as .....**

- (a) Employee Costs                      (b) Administrative Overheads  
(c) Salaries and Wages                      (d) Management Expenses

(ix) The process of determining the elements which correspond to the lines and the columns in a financial statement and the elements which must be created by extension is called as

- (a) Mapping                      (b) Name                      (c) Concept                      (d) Scaling

(x) As per the CAS 23, the activity of Overburden Removal that benefits the identified component of an ore to be mined by the entity is called as .....

- (a) Mining Activity                      (b) Overburden Removal  
(c) Stripping Activity                      (d) Advance Stripping

**Answer:**

(i) (a) Reason: Pursuant to Section 148 (6) of the Companies Act, 2013, and Rule 6 (6) of the Companies (Cost Records and Audit) Rules, 2014, the Cost Audit Report is to be filed in Form CRA-4 with the Central Government.

(ii) (c) Reason: Cost Accounting Standard (CAS) 23 is issued by the Council of The Institute of Cost Accountants of India on "Overburden Removal Cost". It is applicable from 1st April, 2017.

(iii) (a) Reason: As per the Cost Auditing Standard (CAS-101) on Planning an Audit of Cost Statements, the risk of material misstatement has two components, viz., Inherent Risk and Control Risk.

(iv) (a) Reason: As per part D, para 3 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on Audited Financial Accounts.

(v) (c) Reason: Social Audit is generally defined to be the audit of data or information depicting social performance of a business in contrast to its normal economic performance as measured in financial audit. A lot of research and experimentation have been conducted to devise techniques or models, which can measure the contribution of an enterprise to the Society.

(vi) (b) Reason: Efficiency ratio =  $\frac{\text{Standard Hours of actual Production}}{\text{Actual Hours Worked}} \times 100 = \frac{720 \times 10}{6,000} \times 100 = 120\%$

(vii) (d) Reason: As per the Second Schedule Part 1 of the Cost and Works Accountants Act, 1959, a Cost Accountant in Practice shall be deemed to be guilty of Professional Misconduct, if he/she expresses his/her opinion on cost or pricing statements of any business or enterprise in which, he/she, his/her firm or a partner in his/her firm has substantial interest. All the other options are Professional Misconduct as per the First Schedule of The Cost and Works Accountants Act, 1959 in relation to the Cost Accountants in Practice.

(viii) (b) Reason: As per the Generally Accepted Cost Accounting Principles (GACAP), Remuneration of the non-Executive Directors will not be considered as part of Employee Costs but will be treated as part of Administrative Overheads.

(ix) (a) Reason: As per the XBRL, Mapping is the process of determining the elements which correspond to the lines and the columns in a final statement and the elements which must be created by extension.



**(x) Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the Second Schedule of The CWA Act, 1959?**

- (a) He/she fails to invite attention to any material departure from the generally accepted procedure of costing and pricing applicable to the circumstances.**
- (b) He/she does not exercise due diligence or is grossly negligent in the conduct of his/her professional duties.**
- (c) He/she fails to report a material misstatement known to him/her to appear in a cost or pricing statement with which he/she is concerned in a professional capacity.**
- (d) In the opinion of the Council, he/she brings disrepute to the Profession or the Institute as a result of his/her action whether or not related to his/her professional work.**

### **Answer**

*(i) (d) Selling and Distribution Overhead Cost. CAS 15 deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements.*

*(ii) (c) Cost Auditing Standard 103. Cost Auditing Standard 103 deals with the overall objectives of the independent cost auditor, the nature and scope of a cost audit and independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with cost auditing standards. It also explains the requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the cost auditing standards.*

*(iii) (c) A Company working in Special Economic Zone. As per Rule 4(3) (ii) of the Companies (Cost Records and Audit) Rules 2014 such units would be outside the purview of cost audit.*

*(iv) (b) 796 Lakh. (Sales 1250 + Export Incentive 85 + Adj of Finished stock 95) - (Materials 634) = 796 Lakh.*

*(v) (d) 1,27,000 [direct expenses as per CAS 10 = royalty paid on production + Job charges + Special Design Charges + Software development charges related to production + Travelling abroad for training = (35,000 + 20,000 + 20,000 + 27,000 + 25,000) = 1,27,000]*

*(vi) (c) Risk identification, process improvement: The objective is to assist the organization in performing functions more effectively and economically with focus on efficiency and effectiveness of operations, giving an early warning system for detection of potentially destructive problems.*

*(vii) (b) Excluded Penalty paid to PF authorities is not normal cost and hence is excluded as per CAS 7 from employee cost.*

*(viii) (d) Notional interest on capital This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.*

*(ix) (c) Productivity The Productivity audit is basically an analysis of the productivity of the resources deployed by any organization. It is generally done to generate information about the status of productivity in the organization for the purpose of determining the scale of efficiency and effectiveness of „resource utilization“.*

(x) (d) Bringing disrepute to the profession or the institute is not considered a misconduct as per the Second Schedule of the CWA Act 1959. It is a misconduct as per the First Schedule, Part IV of the Act.

**83. Choose the correct answer with short justification/working.**

- (i) Part C of the Annexure to the Cost Audit Report in CRA 3 deals with \_\_\_\_\_ .  
(a) Manufacturing Sector                      (b) Service Sector  
(c) Regulated Sector                          (d) Unregulated Sector
- (ii) Cost Accounting Standard 8 is a Cost Accounting Standard on \_\_\_\_\_ .  
(a) Employee Cost                              (b) Utilities Cost  
(c) Pollution Control Cost                      (d) Selling and Distribution Cost
- (iii) Under the Generally Accepted Cost Accounting Principles, the cost of cane supplied from own farm to the sugar mill is treated as \_\_\_\_\_ .  
(a) Direct Materials Cost                      (b) Indirect Materials Cost  
(c) Production Overhead                      (d) Administrative Overhead
- (iv) Constitution of Audit Committee by the Board of Directors is mandatory for \_\_\_\_\_ .  
(a) all companies  
(b) all listed companies only  
(c) all listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only  
(d) all public companies having turnover of `100 crore or more only
- (v) Cost Auditing Standard 102 deals with \_\_\_\_\_ .  
(a) planning an Audit of Cost Statements  
(b) Cost Audit Documentation  
(c) knowledge of process and business  
(d) overall objectives of the Independent Cost Auditor
- (vi) As per the Central Excise Valuation Rules 2000, the assessable value of goods used for captive consumption is \_\_\_\_\_ .  
(a) at actual cost of production of such goods  
(b) at marginal cost of production of such goods  
(c) at 110% of cost of production of such goods  
(d) at market price of such goods
- (vii) A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is \_\_\_\_\_ .  
(a) 730.27 kg.                                      (b) 725.27 kg.  
(c) 742.27 kg.                                      (d) 749.97 kg.
- (viii) Operational Audit can lead to better management with the focus on \_\_\_\_\_ .  
(a) transaction-based analysis for fraud prevention  
(b) compliance of rules  
(c) risk identification, process improvement  
(d) budget monitoring

(ix) A shoe manufacturing company has a plant capacity of producing 700 shoes per shift. During the year of 300 working days, 3 shifts of 8 hours with half-hour recess per shift, it produces 35.91 lakh shoes. The Normal Capacity Utilization percentage is \_\_\_\_\_.

- (a) 82%                      (b) 76%                      (c) 74%                      (d) 78%

(x) Propriety Audit in the context of Government Audit seeks to ensure that \_\_\_\_\_.

- (a) public money are not spent for the benefit of a particular person  
(b) public officer should exercise same vigilance as in respect of expenditure of his/her own money  
(c) no authority should pass an order which will be directly or indirectly to its own advantage  
(d) All the above

**Answer:**

(i) (B) Service Sector Reason: Part C of the Annexure to the Cost Audit Report in Form CRA 3 pursuant to the Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014, gives quantitative information and abridged cost statement for services in the Service Sector.

(ii) (B) Utilities Cost Reason: CAS 8 deals with the Cost Accounting Standard on cost of utilities.

(iii) (A) Direct Material Cost Reason: As per the GACAP, Direct Materials Cost includes cost of procurement and freight inwards of the materials.

(iv) (C) All listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only Reason: The Rule covers all listed companies, public companies having capital of 10 crore and more, annual turnover of 100 crore and more, outstanding deposits, loans and borrowings of 50 crore or more.

(v) (B) Cost Audit Documentation Reason: The Cost Auditing Standard 102 is to provide guidance to the members in the preparation of audit documentation in the context of the audit of cost statements, records and other related documents.

(vi) (C) At 110% of cost of production of such goods Reason: Liability of Excise Duty arises as soon as the goods covered under the Excise Duty are manufactured but the Excise Duty is collected at the time of removal or clearance from the place of manufacture even for captive consumption.

(vii) (B) 725.27 kgs. Reason: Output at Ring Frame =  $1000 \times (100-92)\% \times (100-94)\% \times (100-96)\% \times (100-96)\% \times (100-91)\% = 725.27$  kgs.

(viii) (C) risk identification, process improvement Reason: The objective is to assist the organization in performing the functions more effectively and economically with focus on the efficiency and the effectiveness of the operations, giving an early warning system for the detection of the potentially-destructive problems.

(ix) (B) 76% Reason: Available capacity =  $300 \times (8-0.5) \times 3 \times 700 = 47.25$  lakh units Actual Capacity Utilization % =  $35.91/47.25 = 76\%$

(x) (D) All the above Reason: The objective of Propriety Audit is that public money is not spent for the benefit of a particular person. Public officer should exercise same vigilance as in respect of expenditure of his/her own money and no authority should pass an order which will be directly or indirectly to its own advantage.

**84. Choose the correct answer with short justification/workings.**

(a) 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 one Director of the company.
- (D) The Chief Finance Officer and the Managing Director of the company.

(b) Cost of self-generation utilities for own consumption shall comprise \_\_\_\_\_.

- (A) Administrative overheads.                      (B) Distribution cost
- (C) Factory overheads                              (D) None of the above.

(c) The useful life of an intangible asset, like amount paid on technical knowhow, shall not exceed \_\_\_\_\_ from the date it is available for use.

- (A) 5 years    (B) 8 years
- (C) 10 years    (D) 12 years

(d) Product and Profitability Statement (for audited products/services) is shown under \_\_\_\_\_ of Annexure to the Cost Audit Report.

- (A) Part A    (B) Part B
- (C) Part C    (D) Part D

(e) Cost Audit Documentation is dealt in the \_\_\_\_\_

- (A) Cost Auditing Standard 101
- (B) Cost Auditing Standard 102
- (C) Cost Auditing Standard 103
- (D) Cost Auditing Standard 104

(f) A member of The ICAI shall be deemed to be guilty of other misconduct, if he/she is held guilty by any civil or criminal court of an offence which is punishable with imprisonment \_\_\_\_\_.

- (A) For a term exceeding 3 years
- (B) For a term exceeding 3 months
- (C) For a term exceeding 6 months
- (D) For a term exceeding 2 years

(g) Costing Taxonomy is best defined as a \_\_\_\_\_.

- (A) Dictionary
- (B) Made Easy
- (C) Tax Ready Reckoner
- (D) Referencer

(h) The Consumer Service Audit critically examines \_\_\_\_\_

- (A) Outstanding payment of consumers
- (B) The price consumers are ready to pay for a particular product/service.
- (C) and appraises management of a business enterprise of responsibility towards consumers.
- (D) Demand of a product by consumers.

**(i) Which of the following ratios appears as Profitability Ratio in Part D of Annexure to the Cost Audit Report ?**

- (A) Net Profit to Net Sale**
- (B) Value added to Net Sales**
- (C) Profit before Tax to Value Added.**
- (D) Net Profit to Share Capital.**

**(j) CAS 24 deals with \_\_\_\_\_.**

- (A) Overburden Removal Cost**
- (B) Interest and Financing Charges.**
- (C) Royalty and Technical Knowhow Fee.**
- (D) Treatment of Revenue in Cost Statements**

**Answer :**

*(a) (C) the Secretary and one Director of the company Annexure to the Cost Audit Report in CRA 3 shall be approved by the Board of Directors and by signed by the Company Secretary and a Director authorized by the Board before submission to the Auditor for Report.*

*(b) (C) factory overheads As per CAS 8, the cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.*

*(c) (C) 10 years CAS 16 on depreciation and amortization states that useful life of an intangible asset shall not exceed 10 years from the date it is available for use.*

*(d) (D) Part D This is per Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014*

*(e) (B) Cost Auditing Standard 102 CAS 102 deals with Cost Audit Documentation*

*(f) (C) for a term exceeding 6 months Part III of the Second Schedule to the Cost & Works Accountants of India Act, 1959 finds a member guilty of other misconduct if he/she is held guilty by a court for offences punishable with imprisonment for a term exceeding 6 months.*

*(g) (A) Dictionary Cost Taxonomy is a Dictionary of all cost elements required in the Cost Audit Report and Compliance Report.*

*(h) (C) and appraises management of a business enterprise of responsibility towards consumers. Consumer Services Audit is an appraisal on the availability of a company's products to consumers in right quantity, right price, right place and right time.*

*(i) (C) Profit before Tax to Value Added This is one of the four ratios identified as Profitability Ratios in Part D of Annexure to the Cost Audit Report.*

*(j) (D) Treatment of Revenue in Cost Statements Effective from 1st April, 2017, CAS 24 on Treatment of Revenue in Cost Statements has become applicable.*

## ***BASIS OF COST AND MANAGEMENT AUDIT***

1. The Company has to upload the cost audit report electronically to the MCA through Form \_\_\_\_\_.

- a) CRA – 4                      b) CRA – 3                      c) CRA – 2                      d) CRA – 1  
#(a) CRA - 4

2. Cost Audit was initially introduced in the year \_\_\_\_\_.

- a) 1959.                      b) 1965.                      c) 1949.                      d) 1975.  
#(b)1965

3. Cost Records are maintained on \_\_\_\_\_ basis.

- a) Accrual                      b) Cash                      c) Actual                      d) None of these  
#(a) Accrual

4. Item appearing only in Cost Records is \_\_\_\_\_.

- a) Profit on Sale of Assets                      b) Interest Received  
c) Loss on Sale of Assets                      d) Notional Interest on Capital

(d) Notional interest on capital.

*This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.*

5. The cost records are to be maintained as specified in:

- a) CRA3                      b) CRA1                      c) CRA 4                      d) CRA 2  
#(b) CRA1.

*Pursuant to Rule 5(1) of the Companies(Cost Records and Audit) Rules,201*

6. Cost Information \_\_\_\_\_ the organization to structure the cost, understand it and use it for communicating with the stakeholders.

- a) Enables                      b) Disables                      c) Useful                      d) None of these  
# (a) Enables

7. Costing includes product, process, and resource-related information covering the \_\_\_\_\_ of the organization and its value chain.

- a) Performance                      b) Ability                      c) Consistency                      d) Functions  
# (d) Functions

8. Costing is an important tool in \_\_\_\_\_ organizational performance in terms of shareholder and stakeholder value.

- a) Determining                      b) Calculating                      c) Assessing                      d) None of these  
# (c) Assessing

9. The Cost Auditor appointed has to render the cost audit report to the board of directors of the Company, as per the specified time limit, in Form \_\_\_\_\_.

- a) CRA-3                      b) CRA – 1                      c) XBRL                      d) CRA – 2  
#(a) CRA – 3



**4. The applicability of maintenance cost records under CCRA – Rules, 2014 for regulated industries having overall turnover of**

- a) 25.00 crores
- b) 35 .00 crores
- c) 50.00 crores
- d) 100.00 crores

#(b) 35.00 crore

*The applicability of maintenance cost records under CCRA – Rules, 2014 for regulated industries having overall turnover of 35.00 crores or more.*

**5. Which one of the below is not a regulated industry**

- a) Fertilizers
- b) Paper
- c) Sugar
- d) Petroleum products

#(b) Paper

*Paper industry is a non-regulated industry.*

**7. 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) 180 days

#(a) 30 days

*As per Rule-6 of the Companies (Cost Records and Audit) Rules, 2014, 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 thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.*

**8. Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of \_\_\_\_\_ days from the closure of the financial year to which the report relates.**

- a) 60 days
- b) 90 days
- c) 180 days
- d) 270 days

#(c) 180

*days Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.*

**6. The cost auditor shall be appointed within \_\_\_\_\_ days of the beginning of the financial year.**

- a) 60 days
- b) 90 days
- c) 180 days
- d) 270 days

#(c) 180 days

*As per Rule-6 of the Companies (Cost Records and Audit) Rules, 2014 the cost auditor shall be appointed within 180 days of the beginning of the financial year.*

## ***COST AUDIT DOCUMENTATION AND AUDIT PROCESS***

1. Cost Auditing Standard \_\_\_\_\_ deals with Cost Audit Documentation.

- a) 101                      b) 102                      c) 103                      d) 104

#(b) 102

*Cost Auditing Standard – 102 deals with Cost Audit Documentation. The purpose of this Standard is to provide guidance to the members in preparation of Audit Documentation in the context of the audit of cost statements, records and other related documents.*

2. What is the first stage of an audit of cost statement?

- a) Planning                      b) Performing  
c) Reporting                      d) None of the above.

#(a) Planning

*Planning is the first stage of an audit. The planning stage involves determining the audit strategy as well as identifying the nature and the timing of the procedures to be performed.*

3. What is the final stage of an audit of cost statement?

- a) Planning  
b) Performing  
c) Reporting  
d) None of the above.

#(c) Reporting

*Reporting is the final stage of an audit. The auditor's opinion is expressed in the audit report. The final stage of the audit involves drawing conclusions based on the evidence gathered and arriving at an opinion regarding the fair presentation of cost statements.*

## ***COST AUDITOR – PROFESSIONAL ETHICS AND RESPONSIBILITIES***

1. "Cost auditor" means a Cost Accountant in practice, as defined in clause (b), who is appointed, by the Board. This definition is given under \_\_\_\_\_.

- a) Rule(a)                      b) Rule 2(b)                      c) Rule 2(c)                      d) None of the above

#(c) Rule 2(c)

2. A person shall be punishable for first time conviction for falsely claiming to be a member with fine which may extend to rupees \_\_\_\_\_.

- a) 1,000                      b) 2,000                      c) 3,000                      d) 5,000

#(a) 1,000

3. There are \_\_\_\_\_ to the Act clarifies or indicates that the schedules provide an illustrative list of acts and omissions constituting "professional or other misconduct

- a) two schedules                      b) three schedules  
c) four schedules                      d) five schedules

#(a) two schedules

*As per section 22 of the Cost and Works Accountants Act, 1959 there are two schedules to the Act clarifies or indicates that the schedules provide an illustrative list of acts and omissions constituting professional or other misconduct.*

## OVERVIEW OF COST ACCOUNTING STANDARDS AND GACAP

1. As per CAS 2 Actual Capacity utilization shall be presented as a percentage of \_\_\_\_\_ capacity.

- a) Installed Capacity
- b) Practical Capacity
- c) Abnormal Loss (%)
- d) Actual Production.

#(a) Installed Capacity

2. CAS-20 deals with \_\_\_\_\_

- a) Royalty and Technical Knowhow fee.
- b) Material Cost.
- c) Research & Development Cost.
- d) Financial Cost.

#(a) Royalty and Technical Knowhow fee.

3. CAS 5 deals with \_\_\_\_\_

- a) Equalized cost of transportation
- b) Captive consumption
- c) Capacity determination
- d) Cost classification

#(a) Equalized cost of transportation.

*The objective of the standard is to bring uniformity in the application of principles and methods used in the determination of averaged/ equalized transportation cost.*

4. CAS-14 deals with \_\_\_\_\_

- a) Cost of Inventory
- b) Utilities Cost
- c) Pollution Control Cost
- d) None of above

#(c) Pollution Control Cost.

5. The Cost Accounting Standard 15 is a Cost Accounting Standard on \_\_\_\_\_.

- a) Employees Cost
- b) Utilities Cost
- c) Pollution Control Cost
- d) Selling & Distribution Cost

#(d) Selling and Distribution Overhead Cost

*CAS 15 deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements.*

6. Under the Generally Accepted Cost Accounting Principles, the cost of cane supplied from own farm to the sugar mill is treated as \_\_\_\_\_

- a) Direct Material Cost
- b) Indirect Material Cost
- c) Production Overhead
- d) Administrative Overhead

#(a) Direct Material cost

*As per the GACAP, Direct Materials Cost includes cost of procurement and freight inwards of the materials.*

7. Variances due to abnormal reasons ----- form part of cost as per GACAP.

- a) Will Not                      b) Is                      c) Are                      d) Will

#(a) Will Not

8. CAS 11 deals with :

- a) Administrative Overhead  
b) Factory Overhead  
c) Selling & Distribution Overhead  
d) Financial Cost

#(a) Administrative Overheads.

*This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.*

9. The foreign exchange component of imported material is converted at the rate on –

- a) Date of Payment                      b) Date of Delivery  
c) Date of Transaction                      d) Date of Use

#(c) Date of transaction.

*This is as per CAS 6 and GACAP*

10. Cost Accounting Standard 8 is a Cost Accounting Standard on \_\_\_\_\_

- a) Employees Cost                      b) Utilities Cost  
c) Pollution Control Cost                      d) Selling & Distribution Cost

#(b) Utilities Cost

*CAS 8 deals with the Cost Accounting Standard on cost of utilities.*

## OVERVIEW OF COST AUDITING STANDARDS

1. Cost auditing standards, preface to the standards on auditing, quality control review and related services rendered by the cost accountant has been issued by \_\_\_\_\_.

- (a) ICAI                      (b) ICMAI  
(c) CAASB                      (d) ICWAI

#(c) CAASB

*While formulating the Standards, the Cost Audit & Assurance Standards Board [CAASB] takes into consideration the applicable laws, usage and business environment prevailing in India. CAASB also takes into account the relevant provisions of Cost and Works Accountants Act, Rules and Regulations, Code of Professional Ethics, Cost Accounting Standards and other Statements issued by the Institute of the Cost Accountants of India.*

2. Cost Auditing Standards deals with the \_\_\_\_\_ of the cost auditor.

- (a) Efficiency                      (b) Effectiveness  
(c) Qualifications                      (d) Responsibility

#(d) Responsibility

3. The Cost Auditing Standard 101 deals with \_\_\_\_\_.

- (a) Cost Audit Documentation
- (b) Planning an audit of Cost Statements
- (c) Knowledge of business, its processes and the business
- (d) Overall objectives of the independent cost auditor

#(b) Planning an audit of Cost Statements

Cost Auditing Standard 101 deals with the auditors' responsibility to plan an audit of cost statements, records and other related documents. The auditor shall prepare and document the overall audit strategy and audit plan.

4. Requirements of CAS – 104, the cost auditor shall \_\_\_\_\_.

- (a) Comply with the relevant ethical requirements
- (b) Have adequate level of understanding of the knowledge of business
- (c) Prepare audit documentation
- (d) None of the above.

#(b) Have adequate level of understanding of the knowledge of business

In performing an audit of cost statement, records and other related documents, the cost auditor should have the knowledge of the client's business to enable him to understand the processes and express his opinion on the cost statements.

5. The procedures followed by the cost auditor to reduce the audit risk to an acceptable level will not detect a misstatement that exists and that could be material is \_\_\_\_\_.

- (a) Inherent risk.
- (b) Detection risk.
- (c) Control risk
- (d) None of the above.

#(b) Detection risk.

Detection risk is the risk that the cost auditor will not detect a misstatement that exists in an assertion that could be material, either individually or when aggregated with other misstatements. Detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor.

### **FILING OF COST AUDIT REPORT TO MCA [In XBRL format (as per Taxonomy)]**

1. XBRL is a language based on

- a) XBL family of languages.
- b) XRL family of languages.
- c) XML family of languages
- d) XGL family of languages.

#(c) XML family of languages

XBRL belongs to Extensible Markup Language family. It has been defined specifically to meet requirements of business and financial information

2. XBRL technical term for a table

- a) Hypercube
- b) Imputed Value
- c) Fact
- d) Item .

#(a) Hypercube.

This is as per XBRL glossary of terms. Several technical terms are used, that have specific meanings, in the context of using XBRL.

**3. In XBRL Format process of determining the elements that correspond to lines and columns in a financial statement and which elements must be created by extension is:**

- a) Mapping                      b) Label  
c) Hierarchy                    d) Scaling

#(a) Mapping.

*This is as per XBRL glossary. Several technical terms are used, that have specific meanings, in the context of using XBRL.*

**4. Within a period of \_\_\_\_\_ days, company shall file a copy of the cost audit report to the Central Government.**

- a) 30 days                      b) 45 days  
c) 60 days                      d) 90 days

#(a) 30 days

*Rule 6(6), of the Companies (Cost Records and Audit) Rules, 2014, as amended by the Companies (Cost Records and Audit) Amendment Rules, 2016, within a period of thirty days, company shall file a copy of the cost audit report to the Central Government.*

**5. The length of Corporate Identity Number (CIN) is \_\_\_\_\_.**

- a) 13                              b) 15  
c) 21                              d) 24

#(c) 21

*Corporate Identity Number or Company Identification Number (CIN) is a unique 21 digit alphanumeric number which is assigned by the ROC (Registrar of Companies).*

**6. The length of Service Request Number (SRN) is \_\_\_\_\_.**

- a) 8                                b) 9  
c) 10                              d) 11

#(b) 9

*A Service Request Number (SRN) is nine character alphanumeric strings, which starts with a letter followed by eight numerical numbers. Companies who have filed multiple Form 23C in respect of multiple cost auditors will be required to provide the SRN Numbers against each Form 23C filed.*

**7. The length of Permanent Account Number (PAN) is \_\_\_\_\_.**

- a) 9                                b) 10                              c) 11                              d) 12

#(b) 10

*Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued by the Income Tax Department of India. PAN is unique to an individual or entity and it is valid across India.*

**8. In form \_\_\_\_\_, company shall file the cost audit report to Central Government.**

- a) CRA-1                        b) CRA-2  
c) CRA-3                        d) CRA-4

#(d) CRA-4

*Rule 6(6), of the Companies (Cost Records and Audit) Rules, 2014, as amended by the Companies (Cost Records and Audit) Amendment Rules, 2016, within a period of thirty days, company shall file a copy of the cost audit report to the Central Government, in Form CRA-4 in XBRL format.*

9. Once the instance document is successfully validated from the tool, the next step is to \_\_\_\_\_.

- a) download XBRL validation tool
- b) pre-scrutinize the validated instance document
- c) Convert to PDF and verify the contents of the instance document
- d) attach instance document to the Form CRA-4

*#(b) pre-scrutinize the validated instance document*

*Once the instance document is successfully validated from the tool, the next step is to pre-scrutinize the validated instance document with the help of the same tool using a working internet connection.*

10. \_\_\_\_\_ of the Annexure to the Cost Audit Report of Companies (Cost Records and Audit) Rules, 2014 indicates the details of Quantitative Information.

- a) Part A, Para 1
- b) Part A, Para 2
- c) Part A, Para 3
- d) Part A, Para 4

*#(d) Part A, Para 4*

*Part-A, Para 4 of the Annexure to the Cost Audit Report of Companies (Cost Records and Audit) Rules, 2014 require reporting of Net Operational Revenue of every CETA Heading separately comprised in the Total Operational Revenue as per Financial Accounts. The quantitative information and abridged cost statements will have to be provided for each unique combination of CETA Heading and UOM of the Products which are covered under cost audit.*

## MANAGEMENT REPORTING ISSUES UNDER COST AUDIT

1. Costing Taxonomy is best defined as a

- a) Dictionary
- b) Made easy
- c) Tax Ready Reckoner
- d) Reference

*#(a) Dictionary.*

*Costing Taxonomy is a dictionary of all cost elements required in cost audit report.*

2. Which one of the following is covered under performance analysis report?

- a) Cost per unit of material used
- b) Cost of utilities
- c) Impact of IFRS on the Cost Structure
- d) Impact of CAS and GACAP

*#(c) Impact of IFRS on the Cost Structure.*

*The Report on Performance Analysis may include the following. (i) Manpower Analysis (ii) Impact of IFRS on the Cost Structure, Cash-Flows and Profitability (iii) Application of Management Accounting Tools etc.*

3. The Bureau of Energy Efficiency formed Under \_\_\_\_\_

- a) The Companies Act, 2013
- b) The Energy Conservation Act, 2001
- c) The Income Tax Act, 1961
- d) None of the above

*#(b) The Energy Conservation Act, 2001*

*The Bureau of Energy Efficiency formed under the Energy Conservation Act 2001. The agency's function is to develop programs which will increase the conservation and efficient use of energy in India.*

4. Activity based costing is used for the purpose of \_\_\_\_\_

- a) Cost Computation
- b) Cost Reduction
- c) Cost Control
- d) Total performance management

#(a) Cost Computation

Activity based costing is a management accounting tool which is used to measure cost computation.

5. Performance pyramid is basically used for the purpose of \_\_\_\_\_

- a) Cost Computation
- b) Cost Reduction
- c) Cost Control
- d) Total performance management

#(d) Total performance management.

Performance Pyramid is a management accounting tool which is used to measure total performance of organization.

6. Life cycle costing is used for the purpose of \_\_\_\_\_

- a) Cost Reduction
- b) Pricing and decision making
- c) Total performance management
- d) Cost Control.

#(b) Pricing and decision making

Life cycle costing is a management accounting tool which is used for the purpose of pricing and decision making of the organization.

7. Quality costing is used for the purpose of \_\_\_\_\_

- a) Cost Reduction
- b) Pricing and decision making
- c) Total performance management
- d) Cost Control.

#(a) Cost Reduction

Quality costing is a management accounting tool which is used for the purpose of cost reduction of the organization.

8. KPI can be classified in the following Category \_\_\_\_\_.

- a) Quantitative & Qualitative
- b) Actionable
- c) Trending
- d) All of the above

#(d) All of the above

The KPIs could be: (i) Quantitative – these can be financial or non-financial (ii) Qualitative – these are often lead indicators i.e. they influence future performance (iii) Actionable – those which can be influenced by enterprise actions or controllable (iv) Trending – those which need to be assessed over a period of time to observe whether they are improving or not.

9. Which one of the following KPI is used to measure productivity & efficiency of a machine?

- a) % of Idle time to total available time
- b) Machine downtime ratio
- c) Cost per of Break-Down Hour
- d) Contribution per unit of material used.

#(b) Machine downtime ratio

It is a ratio which indicates the efficiency and productivity of a machine. So, it is a key performance indicator to measure performance of a machine.

10. Financial Position and Ratio Analysis information in Annexure to Cost Audit Report to be provided for:

- a) Current Year and Previous Year
- b) Current Year and Previous 2 Years
- c) Current Year and Previous 3 years
- d) Current year only.

#(a) Current Year and Previous Year

*This is pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014*

## BASICS OF MANAGEMENT AUDIT

1. Management audit \_\_\_\_\_ on financial matters

- a) Involves
- b) Only concentrate
- c) Does not concentrate
- d) None of these

#(c) Does not concentrate

2. The main objectives of management audit is to \_\_\_\_\_.

- a) Suggest improvement in methods of operations
- b) Framing basic policies for the organization
- c) Setting up an organizational framework
- d) None of these

#(a) Suggest improvement in methods of operations

3. Management audit is the unique process of \_\_\_\_\_ the performance of directors, managers or the performance of Management.

- a) Appraising
- b) Calculating
- c) Auditing
- d) Planning

#(a) Appraising

4. The main emphasis of Management Audit:

- a) Problem solving
- b) Problem identification
- c) Problem definition
- d) Problem avoidance

#(b) Problem identification.

*Management Audit pinpoints the areas requiring attention of management, it evaluates the existence of well defined objectives, it seeks to review appraise and evaluate the corporate plans and policies based on certain standards of objectivity.*

5. Management audit is normally presumed to be a \_\_\_\_\_ into a performance of a manager or group of managers.

- a) Routine investigation
- b) Non-routine investigation
- c) Auditing
- d) None of these

#(b) Non-routine investigation

## MANAGEMENT AUDIT IN DIFFERENT FUNCTIONS

1. Important point in Corporate planning is \_\_\_\_\_

- a. Time and Work Study
- b. Imposing Control System
- c. Forecasting and goal setting.
- d. SWOT analysis.

#d.SWOT analysis

A SWOT - strengths, weaknesses, opportunities and threats analysis can help identify and understand key issues affecting the business.

2. Assurance engagements involve \_\_\_\_\_

- a. Only Individual Parties
- b. Three separate parties.
- c. Contractor and Contractee
- d. None of them

#b.Three separate parties.

The parties are a public accountant in practice, a responsible party and intended users.

3. The consumer service audit critically examines:

- a. Outstanding payment of consumers.
- b. Price consumers are ready to pay for particular product/service
- c. An appraise management of business enterprise of responsibility towards consumers.
- d. Demand of a product by consumers.

#c. An appraise management of business enterprise of responsibility towards consumers.

The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services by making available the products and services of the right qualities at the right time, in right quantity, at the right place and right price.

4. Consumer Service Audit is part of \_\_\_\_\_

- a. Business Activity Audit
- b. Social Audit
- c. Service Audit
- d. None of Above

#b.Social Audit.

Consumer Service Audit is an audit of public responsibility of business enterprise in relation to its customers and is a part of social audit. The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services.

5. There are no fixed items of evidence to be checked by Management Auditor

- a. The statement is true.
- b. The statement is false.
- c. The statement is partly true.
- d. The statement is partly false.

#a.The statement is true.

A Management Auditor has to rely more on his experience and acumen to identify areas of review.

6. Management Audit Report Submitted to:

- a. Cost Audit Branch
- b. Audit Committee
- c. Central Government
- d. Management of Concern

#d.Management of concern.

Management audit undertakes examination of the effectiveness of management in controlling the total activities of the organization in the accomplishment of the organization objectives.

7. There are no fixed items of evidence to be checked by Management Auditor. A Management Auditor has to rely more on \_\_\_\_\_

- a. his experience and acumen.
- b. Auditors Working Paper.
- c. Physical Verification Sheet.
- d. Information Provided by Management.

#a. his experience and acumen.

*A Management Auditor has to rely more on his experience and acumen to identify areas of review. There are no fixed items of evidence to be checked by Management Auditor.*

8. Zero base budget (ZBB) system was modeled by \_\_\_\_\_

- a. Peter A. Woodcock.
- b. Peter A. Phyrh.
- c. P F Ducker
- d. None of them

#b. Peter A. Phyrh.

*Zero base budget (ZBB) System was modeled by Peter A. Phyrh.*

9. Efficiency Audit ensures \_\_\_\_\_ return on Capital Employed.

- a. optimum
- b. maximum
- c. minimum
- d. average

#a. Optimum.

*The main purpose of Efficiency Audit is to ensure — That every rupee invested in capital or in other fields give optimum returns, and The balancing investment between different functions and aspects designed to give optimum results.*

10. Who is the developer of Management Audit.

- a. T. G. Rose
- b. T. G. Tailors
- c. M. C. Sukla
- d. None of them

#a. T. G. Rose

*T. G. Rose developed the concept of Management Audit as a logical system of evaluating the quality of Management.*

## **INTERNAL CONTROL, INTERNAL AUDIT AND OPERATIONAL AUDIT**

1. One of the major components of government audit is/are

- a. Government Revenue
- b. Union Budget and Control
- c. Government Expenditure
- d. Taxation and Fiscal Policies

#c. Government Expenditure

*Audit of Government Expenditure is one of the major components of government audit conducted by the office of C & AG.*

**2. There is no requirement of Audit Working Papers while conducting audit and they only result in loss of time.**

- a. The Statement is Correct
- b. The Statement is Incorrect
- c. The Statement is Incomplete
- d. None

#b. The Statement is Incorrect.

*Audit working papers are the record of the planning and execution of the audit engagement. Auditors retain a set of working papers for each audit engagement for each year.*

**3. Aspects may be taken into consideration for proper inventory control**

- a. Maximum, minimum and reorder level fixation
- b. Fixed order quantity system and different replenishment systems.
- c. Fast moving, slow moving and non-moving analysis etc.
- d. All of the above.

#d. All of the above.

*The following aspects may be taken into consideration for proper inventory control –*

1. Maximum, minimum and reorder level fixation
2. VED analysis
3. Just-in time (JIT) purchasing
4. Fast moving, slow moving and non-moving analysis.

**4. Qualities of good Internal Auditor are/is**

- a. Right Attitude
- b. Technical Expertise
- c. Communication and other soft skills.
- d. All of the above.

#d. All of the above.

*According to Technical Guide on Internal Auditing by The Institute of Cost Accountants of India, Internal Auditor should have following three traits: • Technical Expertise • Right Attitude • Communication and other soft skills. An Internal Audit team has to have representation from diverse professional fields in order to understand the organization better.*

**5. NGO(s) are incorporated under**

- a. Societies Registration Act, 1860
- b. India Trust Act, 1882
- c. As Section 8 Company
- d. All of the above.

#d. All of the above.

*Non-Governmental Organizations (NGO) are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of India. NGO's can also be incorporated as a company under section 8 of the Companies Act, 2013.*

**6. Who can be appointed as Internal Auditor as per the Companies Act, 2013**

- a. A Chartered Accountant
- b. A Cost Accountant
- c. Such other professional
- d. All of the above

#d. All of the above.

*AS per Section 138 of the Companies Act, 2013 an internal auditor, shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.*

**7. The management auditor shall consider in the evaluation of capacity utilization –**

- a. Method of measuring base machine capacity**
- b. Capacity measurement is based on “capital output ratio” or sundry other factors.**
- c. Technical terminology like licensed capacity, installed capacity, rated capacity etc. should be properly defined.**
- d. All of the above.**

#d. All of the above.

*Yes, the management auditor shall consider the following points in the evaluation and measurement of capacity utilization.*

**8. An audit of or for a government agency is composed**

- a. Financial compliance**
- b. Economy and efficiency**
- c. Program results.**
- d. All of the above.**

#d. All of the above.

*An audit of or for a government agency is composed of three elements are as under*

*1. Financial compliance, 2. Economy and efficiency, and 3. Program results. The typical definition of a financial audit would not include elements 2 and 3. These are operational auditing techniques.*

**9. Internal Audit is \_\_\_\_\_**

- a. One time activity**
- b. A continuous activity**
- c. Half yearly**
- d. None of above**

#b. A continuous activity.

*Internal Audit is a continuous and systematic process of examining and reporting the operations and records of a concern.*

**10. Which section of Companies Act deals with Internal Audit**

- a. Section 138**
- b. Section 148**
- c. Section 139**
- d. Section 192**

#a. Section 138 of the Companies Act 2013

*Section 138 of the Companies Act 2013 deals with provisions of Internal Audit.*

**11. Internal control system can be comprised of**

- a. Preventive Control**
- b. Detective Control**
- c. Corrective Control**
- d. All of the above**

#d. All of the above.

*Internal control system can be classified in three types Preventive Control, Detective Control and Corrective Control*

**12. Internal Audit can be performed by**

- a. Employee of the Organization**
- b. External Agencies**
- c. Management itself**
- d. Both a. and b.**

#d. Both a. and b.

*Internal audit is a management tool performed by employees of the organization or external agencies specially assigned for this purpose.*



19.----- States about the audit of accounts of Municipalities.

- a. Article 243Z of the Constitution                      b. Article 243J of the Constitution  
c. Both a. and b.    d. None of the above

#a. Article 243Z of the Constitution.

Article 243J of the Constitution states that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts. Article 243Z of the Constitution states about the audit of accounts of Municipalities. The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts.

20. The government also engages in commercial activities and for the purpose it may incorporate \_\_\_\_\_ type of entities.

- a. Five    b. Three    c. Many    d. Various.

#b. Three.

The government also engages in commercial activities and for the purpose it may incorporate following types of entities: a. Departmental enterprises engaged in commercial and trading operations. b. Statutory corporations created by specific statutes such as LIC, Air India, etc. c. Government companies, set up under the Companies Act, 2013.

21. Financial Administration of Local Bodies includes

- a. Budgetary Procedure    b. Expenditure Control  
c. Accounting System    d. All of the above

#d. All of the above.

Financial Administration of Local Bodies has three components Budgetary Procedure, Expenditure Control and Accounting System.

22. Field Balance Sheet Approach to audit can be applied in case of audit of the

- a. Co-Operative societies    b. Local Body Corporate  
c. Self-Help Group    d. Club

#c. Self-Help Group.

Field Balance Sheet Approach to audit can be applied in case of audit of the Self-Help Group. The auditor prepares the Field Balance Sheet for the group, as on the date of the audit, based on the SHG's internal records and then cross checks the correctness of balance sheet items. The primary objective is to ascertain the retained earnings of the SHG.

## CASE STUDY ON PERFORMANCE ANALYSIS

1. Royalty paid on sales 30,000; Royalty paid on units produced 20,000, Hire Charges of equipment used for production 2,000, Design charges 15,000, Software development charges related to production 22,000. The Direct Expenses amount is :

- a. 88,000    b. 89,000    c. 99,000    d. 98,000

#b. 89,000

Direct expenses = Royalty paid on sales + Royalty on unites produced + Hire charges on equipment + Design Charges + Software development charges  
= (30000 + 20000 + 2000 + 15000 + 22000) = 89,000

2. The Balance Sheet of X Ltd. As on 31st March 2017 showed the following information:  
 Capital - 1500 lacs, Reserves - 696 lacs, Loans - 600 lacs, Sundry Creditors 774 lacs,  
 Total assets - 3570 lacs. For the year 16-17, PBT - 900 lacs, provision for tax is 360 lacs and  
 proposed dividend is 300 lacs. Return on Networth is:

- a. 30.41 %                      b. 29.41 %                      c. 28.41 %                      d. 27.41%

#b.29.41%

*Networth = Capital + Reserves - Revaluation reserve (if any) - accumulated losses (if any) - deferred expenditure (if any) - misc. expenditure not written off (if any)*  
 $Networth = 1500 + 696 - 360 = 1836$ , Total Earning =  $900 - 360 = 540$   
 Return on Networth =  $540 / 1836 = 29.41\%$

3. Gross Sales 16500 lacs, Excise Duty 1240 lacs, Increase in stock 42 lacs, Cost of raw materials 6250 lacs, Power 2220 lacs, other overheads 215 lacs, Value Added is:

- a. 15260 Lac.                      b. 6617 Lac.  
 c. 6533 Lac.                      d. 15302 lac.

#b.6617 lac.

*Value Addition = Gross sales less Excise Duty Add Increase in stock less Cost of Raw materials less Power less Other Overheads*  
 $= 16500 - 1240 + 42 - 6250 - 2220 - 215 = 6617$  lac.

4. A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is \_\_\_\_\_.

- a. 735.27 Kg.                      b. 725.27 Kg.  
 c. 745.27 Kg.                      d. 755.27 Kg.

#b.725.27 kg.

*Output at Ring Frame =  $1000 \times (100 - 8)\% \times (100 - 6)\% \times (100 - 4)\% \times (100 - 4)\% \times (100 - 9)\%$*   
 $= 725.27$  kgs.

5. Royalty paid on units produced 20,000, Hire Charges of equipment used for production 2,000, Design charges 15,000, Software development charges related to production 22,000.

The Direct Expenses is:

- a. 57000                              b. 59000  
 c. 37000                              d. 44000

#b.59000/-

*Direct expenses = Royalty paid on units produced + Hire Charges of equipment used for production + Design charges + Software development charges related to production*  
 $20000 + 2000 + 15000 + 22000 = 59000/-$

6. Which one of the following costs appeared only in Cost Accounts?

- a. Interest on mortgage and loans  
 b. Notional Interest on Capital  
 c. Dividend equalization fund, sinking, fund etc.  
 d. Loss due to scrapping of plan and machinery

#b. Notional Interest on Capital.

*Any Notional Costs are appeared only in cost accounts but not entered in financial accounts as actual outlay has not occurred.*

7. The excisable goods not sold but used for consumption for manufacture in the production of other articles should be valued at \_\_\_\_\_ of cost.

- a. 100 %                      b. 90 %                      c. 110 %                      d. 95 %

#c. 110%.

*According to the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000, the assessable value of goods used for captive consumption is 110% w.e.f. 05-08-2003 of cost of production of such goods, and as may be prescribed by the Government from time to time.*

8. Which one of the followings in an example of —Solvency Ratio

- a. Capital turnover Ratio                      b. Debt Equity ratio  
c. Debtors Turnover Ratio                      d. None of above

#b. Debt Equity ratio

*Debt Equity ratio represent the long term solvency position of an entity. It is a ratio of debt to equity representing ratio of debt in capital structure.*

9. Cost of Inventory does not include

- a. Costs of Purchase  
b. Costs of Conversion  
c. Other Direct Cost  
d. Administrative overheads that do not contribute to bringing inventories to their present location and condition

#d. Administrative overheads that do not contribute to bringing inventories to their present location and condition

*Costs that are excluded from inventory valuation Certain costs are excluded in valuing inventory are:-*

- Abnormal amounts of wasted materials, labor, or other production costs
  - Storage costs unless they are essential to the production process
- Administrative overheads that do not contribute to bringing inventories to their present location and condition etc.*

10. Which one of the followings in an example of —Profitability Ratio

- a. Inventory Turnover Ratio                      b. Proprietary Ratio  
c. Expenses Ratio                      d. Capital Gearing Ratio

#c. Expenses Ratio

*Expenses Ratio is a profitability ratio with respect to sales. It is a ratio of a particular expense to sales.*

11. Which one of the following is not an utilities.

- a. Steam                      b. Water  
c. Compressed Air                      d. Broadband internet services

#d. Broadband internet services.

*The term 'Utilities' refer to significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.*

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**Paper 19- Cost and Management Audit**

## Paper 19- Cost and Management Audit

Full Marks : 100

Time allowed: 3 hours

Answer Question No. 1 which is compulsory and carries 20 marks  
and any five from Question No. 2 to 8.

### SECTION - A

1. Choose the most appropriate answer to the following questions giving justification:  
[10x2=20]

- (i) The form in which the cost records shall be maintained: .  
a) CRA -1;  
b) CRA -2;  
c) CRA -3;  
d) CRA -4;
- (ii) Item appearing only in Cost Records is .....  
a) Profit on Sale of Assets;  
b) Interest Received;  
c) Loss on Sale of Assets;  
d) Notional Interest on Capital;
- (iii) The form in which appointment of cost auditor by the company to Central Government is intimated  
a) CRA -1  
b) CRA -2  
c) CRA -3  
d) CRA -4
- (iv) The applicability of maintenance cost records under CCRA – Rules, 2014 for regulated industries having overall turnover of  
a) ₹ 25.00 crores  
b) ₹ 35.00 crores  
c) ₹ 50.00 crores  
d) ₹ 100.00 crores
- (v) The Cost Auditing Standard which deals with Cost Audit Documentation:  
a) 101  
b) 102  
c) 103  
d) 104
- (vi) A person shall be punishable for first time conviction for falsely claiming to be a member with fine which may extend to Rupees .  
a) ₹1,000

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- b) ₹ 2,000  
c) ₹3,000  
d) ₹ 5,000
- (vii) Royalty paid on sales ₹30,000; Royalty paid on units produced ₹20,000, Hire Charges of equipment used for production ₹2,000, Design charges ₹15,000, Software development charges related to production ₹22,000. The Direct Expenses amount is:  
a) ₹88,000  
b) ₹89,000  
c) ₹99,000  
d) ₹98,000
- (viii) The Balance Sheet of X Ltd. As on 31st March 2017 showed the following information: Capital - ₹1500 lakhs, Reserves - ₹696 lakhs, Loans - ₹600 lakhs, Sundry Creditors ₹774 lakhs, Total assets - ₹3570 lakhs. For the year 22 -23, PBT - ₹900 lakhs, provision for tax is ₹360 lakhs and proposed dividend is ₹ 300 lakhs. Return on Net worth is:  
a) 30.41 %  
b) 29.41 %  
c) 28.41 %  
d) 27.41%
- (ix) A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is\_\_ .  
a) 735.27 Kg.  
b) 725.27 Kg.  
c) 745.27 Kg.  
d) 755.27 Kg.
- (x) Consumer Service Audit is part of  
a) Business Activity Audit  
b) Social Audit  
c) Service Audit  
d) None of Above

### Answer:

#### (i) - (a) CRA-1

The form CRA-1 prescribes the form in which cost records shall be maintained. The form categorizes the requirement of maintaining proper details as per 30 headings. The headings are 1. Material Cost, 2. Employee Cost, 3. Utilities etc.

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**(ii) - (d)** Notional interest on capital.

This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.

**(iii) - (b)** CRA -2

Every company referred to in sub -rule (1) shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

**(iv) - (b)** ₹ 35.00 crore

The applicability of maintenance cost records under CCRA –Rules, 2014 for regulated industries having overall turnover of ₹ 35.00 crores or more.

**(v) - (b)** 102

Cost Auditing Standard – 102 deals with Cost Audit Documentation. The purpose of this Standard is to provide guidance to the members in preparation of Audit Documentation in the context of the audit of cost statements, records and other related documents

**(vi) - (a)** ₹ 1,000

Being a member of the Institute, but not having a certificate of practice, represents that he is in practice or practices as a cost accountant, shall be punishable on first conviction with fine which may extend to one thousand rupees.

**(vii) - (b)** ₹89,000 Direct expenses

= Royalty paid on sales+ Royalty on unites produced +Hire charges on equipment +Design Charges+ Software development charges

= ₹(30000+20000+2000+15000+22000) = ₹89,000

**(viii) - (b)** 29.41%

Net worth =Capital +Reserves -Revaluation reserve (if any) -accumulated losses (if any)-deferred expenditure (if any)- misc. expenditure not written off (if any)

Net worth =₹1500+₹696-₹360=₹1836, Total Earning = ₹900-₹360=₹540 Return on Net worth = ₹540/₹1836=29.41%

**(ix) - (b)** 725.27 kg.

Output at Ring Frame =  $1000 \times (100 - 92)\% \times (100 - 94)\% \times (100 - 96)\% \times (100 - 96)\% \times (100 - 91)\%$  = 725.27 kgs.

**(x) - (b)**Social Audit.

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Consumer Service Audit is an audit of public responsibility of business enterprise in relation to its customers and is a part of social audit. The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product- quality and services.

## **SECTION B (5 questions to be answered out of 7 questions)**

- 2. (a) (i) What categories of company can appoint cost auditor? What is the threshold limit to appoint Cost auditor?**
- (ii) To determine the Repairs and maintenance cost what kind of expenses/cost to be included? [6+4=10]**
- (b) Explain whether the following amounts to professional misconduct by a Cost Accountant:**
- (1) Mr. X, a CMA was invited by the Chamber of Commerce to present a paper in a symposium on the issues facing Indian Jute Industry. During the course of his presentation he shared some of the vital information of his client's business under the impression that it will help the Nation to compete with other countries at international level.**
- (2) A firm of Cost Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the company. [6]**

**Answer:**

**(a) (i)**

- (1) Every company specified items in Regulatory sector(A) of rule 3, shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is ₹ 50 crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is ₹ 25 crore or more.
- (2) Every company specified items in Regulatory (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately product or products or service or services for which cost records are required to be maintained under rule 3 is ₹ 35 crore or more.
- (3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3; and (i) whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or (ii) which is operating from a special economic zone; (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term "Captive Generating Plant" shall have the

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same meaning as assigned.

**(a)(ii)** CAS 12 deals with repairs and maintenance. The principle measurement of this standards is as follows:

1. Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity. Direct cost includes the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost includes the cost of and other costs allocable to such activities.
2. Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
3. Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto also include the cost of other resources provided to the contractors.
4. Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage.
5. Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable. For example, routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance should be identified separately. Cost of repairs and maintenance activity shall be measured for each major asset category separately. Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.
6. High value spare, when replaced by a new spare and is reconditioned, shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when they are consumed.

**(b)**

- (1) Clause (1) of Part I of the Second Schedule to the Cost and Works Accountants Act, 1959 deals with the professional misconduct relating to the disclosure of information by a CMA in practice relating to the business of his clients to any person other than his client without the consent of his client or otherwise than as required by any law for the time being in force would amount to breach of confidence. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment. The CMA may, however, disclose the information in case it is required as a part of performance of his professional duties. In the given case, Mr. X has disclosed vital information of his client's business without the consent of the client under the impression that it will help the nation to compete with other countries at International

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level. Thus it is a professional misconduct covered by clause (1) of Part I of Second Schedule to the Cost and Works Accountants Act, 1959.

- (2) Clause 4 of Part I of the Second Schedule to Cost and Works Accountants Act, 1959 states that expressing an opinion on cost and pricing of any business or any enterprise in which the auditor, his firm or a partner in his firm has a substantial interest would constitute misconduct, unless he discloses the interest also in his report. As per facts of the case, the firm has been retained to evaluate the cost of products manufactured by it for its information system. So this amounts to professional misconduct.

**3. (a) A manufacturing firm has up its own power plant to cater its need in manufacturing process.**

**It's one-month data is given below:**

**Number of units produced = 100 lakh units of which 5% is used by generating unit.**

**Material and utility used:**

- (1) Coal 300 MT @ ₹ 30,000 per MT
- (2) Oil 5 MT @ ₹ 1,60,000 MT
- (3) Cost of Water extraction and treatment: 6 lakhs litres @ ₹ 3 per litre
- (4) Steam boiler cost ₹ 55 lakhs with residual value of ₹ 5 lakhs after life of 10 years.
- (5) Cost of Generating Plant is ₹ 90 lakhs with no residual value. Depreciation is charged on straight line method @ 10%
- (6) Generating Plant: 100 skilled workers @ ₹ 30,000 & 150 helpers @ ₹ 20,000 pm.
- (7) Boiler plant: 60 semi-skilled workers @ ₹ 25,000 & 100 helpers @ ₹ 20,000 pm.
- (8) Repair & Maintenance of generating plant & Boiler is ₹ 5.0 lakhs
- (9) Share of Administrative charges ₹ 20 lakh
- (10) Realization from Sale of ash disposed is ₹ 1.5 lakh

**Prepare a cost sheet for Electricity Generating Unit and calculate cost per unit.**

**(b) Auto Parts Manufacturing Company Ltd. showed a profit for the year 2022-23 as ₹35,46,700. During the course of Cost Audit, the followings transactions were noticed:**

- (1) an old machine with net value of ₹ 6,54,000 was sold off for ₹ 9,30,000,
- (2) dividend income was received amounting to ₹ 84,500 from investments,
- (3) a sum of ₹ 58,000 was spent towards CSR commitment,
- (4) 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,
- (5) some renovation work was carried out at a cost of ₹ 7,75,000 and its useful life was only for five years, and
- (6) 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.**

**[9+7=16]**

**Answer:**

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

(a)

Particulars	₹ in lakhs
<b>Material cost</b>	
Coal                                      300 x 30,000	90.00
Oil    5 x 1,60,000	8.00
Water                                        6 x 3	18.00
Total Material Cost	116.00
Wages for Generator Plant (100 x 30,000) + (150 x 20,000)	60.00
Wages for Boiler Plant (60 x 25,000) + (100 x 20,000)	35.00
Depreciation – Generating Plant 90 x 0.10	9.00
Depreciation – boiler plant (55-5)/10	5.00
Repairs & Maintenance of generating plant & boiler	5.00
Administrative Exp.	20.00
<b>Total Cost</b>	<b>250.00</b>

As generating unit consumes 5 %, effective unit produced for manufacturing = 95 lakh Cost per unit = ₹ 250/95 = ₹ 2.63.

(b) Reconciliation of profit between Cost accounts and Financial Accounts of Auto Parts Manufacturing Company Ltd. for the year 2022-23

Particulars	₹	₹
<b>Profit as per the financial accounts</b>		<b>35,46,700</b>
Add: Trading Loss	48,500	
4/5 <sup>th</sup> of Renovation Expenses Amortised	6,20,000	
CSR Contribution	58,000	7,26,500
		42,73,200
Less:		
Profit on Sale of Assets	2,76,000	
Income from Investments	84,500	
Net over valuation of closing inventory in the financial records (₹ 65,400 - ₹ 29,600)	35,800	(-)3,96,300
<b>Profit as per the Cost accounts</b>		<b>38,76,900</b>

## **Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1**

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**4. (a) Management Audit and Operational Audit are complementary and supplementary to one another". Discuss in brief.**

**(b) What is proprietary audit? While conducting proprietary audit what should be the observation of an auditor? [6+10=16]**

**Answer:**

**(a)**

Management Audit is concerned with quality of managing whereas Operational Audit centres on the quality of operation. Operational Audit is an audit for the management and Management Audit is an audit of the management also.

The basic difference between the two audits is not in method, but in the level of appraisal. In management audit, the auditor is to make his tests to the level of top management, its formulation of objectives, plans and policies and its decision making. It is not that he just verifies the operations of control and procedures and fulfilment of plans in conformity with the prescribed policies.

The auditor is to reach the root i.e., the functions of top management which lay down objectives and policies, provide means and procedures of implementation and control and which actually engage in direction and control on a continuous basis. In addition to what would normally be covered in an operational audit, management audit would also encompass the relevance and effectiveness of the aims, duties and decisions of management at various levels, plans, policies and decisions of the top management. Every aspect of the functions of Board of Directors should be in conformity with the objects set out in the constituting document. Similarly, the managing director, if any, should act not only in accordance with the mandate he has received but he should ensure that the decisions he takes are in conformity with the objects of the company and the policies formulated by the Board. The effectiveness of management under the control of managing director and the various members of the Board including those in charge of finance, production, sales etc., should be subject to review of the management auditor.

Therefore, it can be said that the two audits are complementary and supplementary to one another.

**(b)**

Propriety audit stands for verification of transactions in the best interest of the public, commonly accepted customs and standards of conduct. The term "propriety" has been defined by Kholer as "that which meets the tests of public interest, commonly accepted customs and standards of conduct and particularly as applied to professional performance, requirements of Government regulations, and professional codes." The tests boil down to consideration of financial prudence and economy, instead of too much dependence on documents, vouchers etc. It shifts the emphasis to find the wisdom and appropriateness of expenditure, rather than verifying whether it has been duly authorized or evidenced by proper vouchers etc. In other words, the propriety audit seeks to ensure that the planned expenditure would yield the optimum returns and there is no other better alternative

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

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available. It seeks to ensure that the expenditure is not only appropriate to of public sector undertakings as undertaken by the Comptroller and Auditor-General of India is the best example of propriety audit.

The auditors, while conducting the propriety audit, should in any case ensure observance of the following Canons of Financial Propriety:

- (1) The expenditure should not, prima facie, be more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person
  - (2) No authority should exercise its power of sanctioning expenditure to pass an order which will be directly or indirectly to his own advantage.
  - (3) Public money should not be utilised for the benefit of a particular person or section of the community unless:
    - (i) The amount of expenditure involved is insignificant or
    - (ii) A claim from the amount could be enforced in a court of law or
    - (iii) The expenditure is in pursuance of a recognized policy or custom.
- (d)** The amount of allowances (e.g. travelling allowances) granted to meet the expenditure of a particular type, should be so regulated that these are not on the whole sources of profit to the recipients. The Cost Audit Reports can be termed as propriety audit as these reports seeks to ensure that actual expenditure at each stage is appropriate and optimum returns have been achieved. The cost auditor always aims at ensuring that the actual expenditure should not be prima facie more than what the occasion demands. The cost auditor has to report on matters which appear to him to be clearly wrong in principle, cases where the company's funds have been used in a negligent or inefficient manner, arm's length pricing of related party transactions, etc. These are the areas where the propriety aspect is involved and therefore cost audit may be in the nature of "propriety audit".

**5. (a) As per Companies Act, 2013 which companies are required to conduct Internal Audit?**

**(b) What are the role of CMA's in internal audit.**

**[7+9=16]**

**Answer:**

**(a)**

Section 138 of the Companies Act 2013 read with rule 13 - companies(accounts) rules, 2014 states that the following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely:

- (1) every listed company
- (2) every unlisted public company having;
  - (i) paid up share capital of ₹50 crores or more during the preceding financial year; or
  - (ii) turnover of ₹200 crore or more during the preceding financial year; or
  - (iii) outstanding loans or borrowings from banks or public financial institutions exceeding ₹ 100 crore or more at any point of time during the preceding financial year; or

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- (iv) which has accepted deposits of ₹25 crore or more at any point of time during the last financial year; and.
- (3) every private company having
- (i) turnover of two hundred crore rupees or more during the preceding financial year; or
  - (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year:

Provided that an existing company covered under any of the above criteria shall comply with the requirements of section 138 and this rule within six months of commencement of such section.

Explanation — For the purposes of this rule—

- (i) the internal auditor may or may not be an employee of the company;
  - (ii) the term “Chartered Accountant” shall mean a Chartered Accountant whether engaged in practice or not. The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.
- (b)** Presently, the role of Internal Audit has become more critical. Customer expectations have increased and compliance demands are growing both in terms of quantity and complexity. The Enterprise Risk Management is emerging as the key element in Corporate Management. The role of effective Cost Management involves in waste reduction and enhancing productivity and process improvement. The Internal Audit must be synchronized to the expectations of the Board. It must develop an Internal audit strategy that is linked with the organization's strategic plan with a focus on optimizing risks, costs, and value. It must develop dynamic internal audit plans. The communication must be done frequently with key stakeholders on their needs, expectations, satisfaction with the internal audit. It should leverage technology to optimize audit operations and should support and facilitate business process improvement and re-engineering and provide active support in furthering good Corporate Governance. CMAs have a colossal role to play as they have a unique blend of core competencies in accounting, management and strategy. CMAs can apply their forward looking insights across the organization to manage risks, reduce costs and create new opportunities, preserve and enhance value.

CMAs possess the expertise to evaluate the operational efficiency, productivity and profitability, wastages, losses inefficiency. They can apply their knowhow in judging efficiency of management of resources, capacity utilization, channelling resources into productive channels, standards of efficiency of performance, production processes and performance of respective units. Efficiency of business processes, Enterprise Performance Management, Business risks. Efficiency of Supply Chains, Efficiency of Utilities / Energy Consumption, Sustainability of Business are critical drivers to keep the business focused on priority areas. The perspective of CMAs has changed in the present era of mergers & acquisitions, new product development and also to climate change and sustainability.

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

The financial perspective, customer perspective, operational perspective and people perspective all can be aligned to meet the goal of the business.

6. (a) As a cost auditor you are required to record your observations and conclusions in para 16 of the Annexure of the cost audit report. From the following information in respect of the concern manufacturing cement offer comments on the performance and suggestions for improvements:

Utilisation and performance of Grinding Mill of a cement factory (rated capacity 80Mt/Hr)

	2022		2021	
1. break down	2164	44%	1009	24%
2. planned Maintenance	246	5%	420	10%
3. power restriction	1236	25%	1472	35%
4. short fall (there are no order)	787	16%	673	16%
5. Want of wagons	492	10%	631	15%
	4919	100%	4205	100%
Total stoppage hours	4919	56%	4205	48%
Total running hours	3865	44%	4555	52%
Total available hours	8784	100%	8760	100%
Production during the year (M.T.)	247360		327960	
Hourly rate of production (M. T.)	64		72	
Capacity utilisation	61.84%		81.99%	
(Annual installed capacity ----- 400000 M.T.)				

(b) RAJA CEMENT LTD. has a captive power generation plant for its cement factory. The following information is available with regard to the power generation for the year ended March 31, 2017:

Coal consumption	2400 tonne @ ₹ 600 per tonne
Oil	3000 liters @ ₹ 50.50 per litre
Water	24000 gallons at ₹ 60 per gallon
Stores and Other Consumables	₹ 55,000

Salaries of power generating plant: 2 supervisors each at ₹10,600 p.m., 5 skilled workers each at ₹6,100 p.m., 3 helpers each at ₹ 4,200 p.m. Salaries to boiler house attendant, 8 workers, each at ₹ 4,200 p.m. Cost of power generating plant — ₹ 15,00,000 having life of plant 15 years with ₹ 60,000 residual value. Cost of Boiler plant — ₹6,00,000 having life of plant 10 years with no residual value. Miscellaneous income received by sale of ash— ₹ 50,000. Repair and maintenance — Power generating plant ₹ 1,50,000, Boiler house ₹ 1,26,000. Share of Administrative Overhead— ₹ 1,35,000. Power generated during the year: 3024250 KWH.

Note: No power generated is used by the power generated plant itself.

You are required to prepare the Cost Sheet to calculate cost per kWh of electricity generated as per the Companies (Cost Records and Audit) Rules 2014. [7+9=16]

**Answer:**

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

(a)

The cost Auditor's comments on the performance and suggestions for improvement and indicated below:

(1) rated capacity achieved per hour:

rated capacity of the Grinding mill = 80 M.T./hour

rated capacity achieved in 2021 = hourly rate of production p.h./rated capacity per hour  
= 72 m.t./80 m.t = 90 %

rated capacity achieved in 2022 = 64 M.T./80 .t = 80 %

- A. it is noticed that capacity achieved during 2022 has come down by 10 % as compared to 2021 figure.
- B. there is a drastic reduction in capacity utilisation in 2022 (20. 15%).this is very alarming situation. the total running hours in 2022 is 3865 as compared to 4555 hours in 2021.
- C. It appears that there is a major break down in 2022 as break down hours are by 20 % as compared to 2021. the planned maintenance hors have gone down substantially which has resulted in higher break down hour.
- D. slight shortfall due to lack of orders has also resulted in lower capacity utilisation.

**Conclusion:** The management of the cement factory is advised to augment planned maintenance hours in order to avoid breakdown of the Grinding Mill Power Generator sets should be installed so that hours lost due to power failure/restriction can be completely obviated. the marketing network should be strengthened so as to improve order position. The sum up total stoppage hours should be curtailed in order to achieve higher capacity utilisation.

(b)

Raja Cement Ltd.

Statement Showing Cost of Power Generated by Power Generated Plant for the Year Ended

Power generated			3024250 kwh
Particulars		Total Amount (₹)	Cost Per Kwh (₹)
Coal consumption (2,400 × 600)	14,40,000	13,90,000	0.46
Less: Sale of Ash	50,000		
Oil 3000 liters at ₹ 50.50 per liter.		1,51,500	0.05
Water 24000 gallons at ₹60/- per gallon		14,40,000	0.48
Stores and other consumables		55,000	0.02
Salaries of generating plant		7,71,600	0.26
Supervisor (2 × 10,600 × 12)	2,54,400		
Skilled Worker (5 × 6100 × 12)	3,66,000		
Helpers (3 × 4200 × 12)	1,51,200		

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

Salaries To Boiler House Attendant (8× 4200 ×12)		4,03,200	0.13
Repairs and maintenance Generating plant	1,50,000		
Boiler house	1,26,000	2,76,000	0.09
Depreciation Generating Plant (15,00,000-60,000)/15 Yrs. Boiler House (6,00,000/10 Yrs.)	96,000 60,000	1,56,000	0.05
Share of administrative overhead		1,35,000	0.04
Total cost of power generated		47,78,300	1.58

7. (a) The following figures are obtained from the Cost Accounting Records of M Ltd. a single product manufacturing company:

Year ended 31st March Particulars	2022 (₹ in lakh)	2021 (₹ in lakh)
Net Sales	4,800	3,840
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
Other Overheads	250	200
Total Depreciation	120	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

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

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, 2022 and 2021:

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

(b) There was a strike from 13.09.22 to 16.11.22 in a garment company of which you were the cost auditor for the year ending 31.03.23 although the company began working from 17.11.2022 production could effectively begin only from 5.12.2022.the expenses incurred during the year ended 31.03.23:

	₹
Salaries and Wages (direct)	3,500
Salaries and Wages (indirect)	2,500
Power(variable)	1,200
Depreciation	1,800
Other Fixed Expenses	2,400

Detailed examination of the records reveals that of the above the following relate to the period 13.09.2022 to 16.11.2022:

Salaries and wages (indirect)	₹ 710 lakhs
Depreciation	₹ 690 lakhs
Other Fixed expenses	₹ 800 lakhs

Calculate the amount which, in your opinion, should be treated as abnormal for exclusion from the product costs. [10+6=16]

**Answer:**

(a)

Year ended March 31,	2022 (₹)	2021 (₹)
Net Sales	4,800	3,840
Add: Export Incentives	-	-
Add/Less: Adjustment in Finished stocks	20	10
<b>Total</b>	4,820	3,850
Less (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 overhead	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

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

(i) Value Added	1,604	1,217
Add: Other Income	300	200
(ii) Distribution of Earnings to	<u>1,904</u>	<u>1,417</u>
(a) Employees as salaries and wages, bonus, gratuity etc.	476	382
Directors – Salaries and commission	48	40
(b) Shareholders Dividend	420	230
(c) Company as retained funds (including depreciation)	404	365
(d) Govt. as taxes:		
Local Taxes	120	100
Income Taxes	316	200
(e) Providers of capital/Fund as interest on Debentures:		
Interest on Debentures	30	30
Interest on Fixed loans from IDBI	90	70
<b>Total distribution of earnings</b>	<b>1,904</b>	<b>1,417</b>

Statement showing calculation of fixed expenses from 17.11.22 to 4.12.22

Particulars	₹ in lakhs
Total expenses 2022-2023	11,400
Less: variable expenses (electricity)	1,200
Total fixed expenses 2022-2023	10,200
Less : Fixed expenses during strike period	2,200
Fixed expenses during Non-strike period	8,000

The strike was for 65 days therefore the non-strike period will be of 301 days. Hence, fixed expenses attributed to 18 days i.e. 17.11. 2022 to 4.12.2022 is  $(18/301 \times 100)$  6 % of ₹ 8,000 lakhs is ₹ 480 lakhs.

Statement showing calculation of total abnormal costs.

Particulars	₹ in lakhs
Therefore ,fixed expenses incurred from 13.09.22 to 16.11.2022	2,200
Fixed expenses incurred from 17.11.2022 to 4.12.2022	480
Total abnormal costs associated with strike	2,680

**8. Any four to be answered out of 5 questions:**

**[4x4=16]**

- (a) How Value Chain activity can have an impact in performance analysis?  
 (b) Write a short note on Audit Working Papers.

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

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- (c) List the Steps of Management Audit.
- (d) The following are the process wise wastages on inputs in a Spinning Mill in the year 2022-23.

Particulars	% age of Wastages on Input
Blow room	9.18
Drawing	1.10
Roving (Simplex)	0.30
Ring Frame(spinning)	7.21
Reeling and winding	1.50

From the above, calculate the process wise waste multiplier factor.

- (e) Purchase of Materials \$ 50,000 [ Forward contract rate \$ = ₹54.40 but \$ = ₹54.60 on the date of importation]; Import Duty paid ₹ 5,65,000; Freight inward ₹1,62,000; Insurance paid or import by road ₹ 48,000; Cash discount ₹ 33,000; Payment made to the foreign vendor after a month, on that date the rate of exchange was \$ = 55.20. Compute the landed cost of material.

**Answer:**

- (a) Many company attempts to gain competitive advantage by appropriately linking its own activities with those of the suppliers, channels or customers. Vertical-integration, quality controls on inputs from suppliers, collaborative arrangements etc. are some of the ways in which company's own activities are beneficially linked to other organizations. This provides an avenue for reporting under performance analysis report. What has been the cost of such coordinating strategies and how much of competitive advantage of the company has improved or strengthened at present level? If such linkages with other companies are established as a matter policy, every appraisal for the Cost Auditor.
- (b) Audit working papers are the documents which record all audit evidence obtained during audit. Such documents are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant Cost Audit and Assurance Standards.
- Auditors retain a set of working papers for each audit engagement for each year. The audit working papers for the current year are referred to as the current working papers. Working papers that are relevant to more than one audit engagement are often kept separately in a file referred to as permanent working papers. The audit working papers (current and permanent) for a client audit engagement are sufficiently detailed to enable another appropriately experienced and competent auditor that is not familiar with the client to obtain an overall understanding of the engagement. Working papers (or documentation) serve three purposes:
- (1) aid in planning and performance of the audit;
  - (2) aid in supervision and review of the audit work; and
  - (3) these papers serve as an evidence of the audit work performed by the auditor to support his opinion.

## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

**(c)** Steps of management audit: The steps of management audit are: -

1. Select an area of operation of management
2. Establish what should be the objective, standard or target of the operation.
3. Determine whether the actual results meet the standards, norms or targets. If not, why not?
  - (i) Is the target too difficult?
  - (ii) Is failure to achieve the target costing the organisation?
4. Establish what is done to ensure the achievement of the norms, target and standards.  
What steps are taken for –
  - (i) planning
  - (ii) operations, execution and implementation e.g. use of up-to-date technology.
  - (iii) Measurement of performance and controls?
5. Carry out a detailed investigation, collect evidence as well as document for audit findings
6. Report the findings of the audit and make recommendations.

**(d)**

Process	% age of wastages on input	Net output for 100 units of input	Waste multiplier
Total			1.2221
Blow room	9.18	$100 - 9.18 = 90.82$	1.1098
Drawing	1.10	$90.82 - 90.82 \times 1.10\% = 90.82 - 0.10 = 89.82$	1.0976
Roving (simplex)	0.30	$89.82 - 89.82 \times 0.30\% = 89.82 - 0.270 = 89.55$	1.0943
Ring Frame (Spinning)	7.21	$89.55 - 89.55 \times 7.21\% = 89.55 - 6.46 = 83.09$	1.0155
Reeling and Winding	1.50	$83.09 - 83.09 \times 1.50\% = 83.09 - 1.25 = 81.84$	1.0000

Waste Multiplier calculation =  $(1/81.84) \times 100 = 0.01222 \times 100 = 1.222$

**(e)** Computation of Landed Cost of Material

Particulars	Amount (₹)
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## Answer to MTP\_Final\_Syllabus 2016\_Jun2023\_Set1

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Purchase price of Material [50,000 x 54.60]	27,30,000
Add: Import Duties of purchasing the material	5,65,000
Add: Any taxes paid during the purchase of material	1,62,000
Add: Freight Inward during the procurement of material	48,000
Value of Receipt of Material	35,05,000



**FINAL EXAMINATION**  
**MODEL QUESTION PAPER**  
**PAPER - 17**  
**COST AND MANAGEMENT AUDIT**

**SET 2**  
**TERM – JUNE 2023**

**Time Allowed: 3 Hours**

**Full Marks: 100**

The figures in the margin on the right side indicate full marks.  
Where considered necessary, suitable assumptions may be made and  
clearly indicated in the answer.

**GROUP – A : Cost Audit [50 Marks]**

**SECTION – A**

**Question No. 1 and 5 are compulsory and answer any two from Question No. 2, 3 & 4.**

**1. (a) Choose the most appropriate answer to the following questions with justification. 1 mark will be awarded for correct answer and 1 mark for justification.: [5 × 2 = 10]**

- (i)** The report post audit of cost records is submitted by the Cost Auditors to:
- a. Managing Director
  - b. CFO
  - c. Audit Committee
  - d. Board of Directors

Briefly provide a reason for selection.

- (ii)** The applicability of Cost Audit for regulated industries having an overall annual turnover during the immediate preceding financial year is \_\_\_\_\_.

- a. ₹ 25 Crore or more
- b. ₹ 35 Crore or more
- c. ₹ 50 Crore or more
- d. ₹ 100 Crore or more

Provide a justification for your selection.

- (iii)** \_\_\_\_\_ is the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material and why?

- a. Inherent risk
- b. Control risk
- c. Audit Risk
- d. Detection risk



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**COST AND MANAGEMENT AUDIT**

- (iv) The cost auditor should adopt appropriate procedures for maintaining confidentiality and safe custody of the \_\_\_\_\_ and for retaining them for a desirable period of time. What is the rationale behind such a requirement?
- Working Papers
  - Cost Audit Programme
  - Daily Worksheets
  - All of the above
- (v) Any casual vacancy in the office of a cost auditor, due to resignation or death or removal, shall be filled by the \_\_\_\_\_ within \_\_\_\_\_ days of vacancy and the company shall inform the Central Government in Form \_\_\_\_\_ within thirty days of such appointment of cost auditor.
- Board of Director, 30, CRA-2
  - Shareholders, 30, CRA-2
  - Board of Director, 90, CRA-2
  - Board of Director, 30, CRA-3

**SECTION – B**

**Answer any 2 Questions:**

**[16 × 2 = 32]**

2. (a) State the fundamental principles to be observed by cost and management accountants in order to achieve the primary objectives of the profession. [5]
- (b) (i) 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 Sales	235
Income from Loan License Operations	560



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(ii) Prepare a list of major principles for measuring production or operation management. [7 + 4 = 11]

3. (a) Prepare a list of the major requirements of Cost Auditing Standard-103, Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards. [9]

(b) Assume that the following information pertains to ABC Cement Ltd., for the year ended on March 31 as follows:

	2022	2021
Rated Capacity per Hour (MT)	80	80
Break down Hours	2,177	1,015
Planned Maintenance (Hours)	247	422
Power restrictions (Hours)	1,237	1,481
Shortfall due to non-availability of orders (Hours)	792	677
Logistics requirement in wagon hours	495	635
Total production stoppage (Hours)	4,948	4,230
Manufacturing hours	3,888	4,582
Total available hours	8,836	8,812
Production during the year (MT)	2,48,844	3,29,928
Hourly Rate of Production (MT)	64	72
Capacity Utilization (%)	62.21	82.48
Annual Installed Capacity (MT)	4,00,000	4,00,000

Based on information stated above, you as a Cost Auditor are required to offer your comments on the following with due justifications:

(i) The performance of the company, and  
(ii) Your suggestion for improvement. [5 + 2 = 7]

4. (a) During the Practical Step of Audit Process - Understanding the Company's Business, the Cost Auditor needs to gather information about the Company and other related details. Critically analyse the statement. [9]

(b) Analyse the elements included in product wise checklist for audit of production and the importance thereof.

[5+2=7]



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**SECTION – C**

**[8 × 1 = 8]**

5. Supreme Industries Ltd. a listed company, is engaged in the business of manufacturing of tyre, tubes and other ancillary products. During the financial year 2022-23, the Company has manufactured six types of products. The details of item manufactured and their turn over is given below. The Company also has its own power plant to support its production process with a capacity of 50 MW (CTA Code-2716). However only 40% of power generated is consumed by the Company and rest 60% of power is sold in open market and the state electricity board. During the year 2022-23 the Company has earned a revenue of is ₹33.00 crore from sale of power.

Sl. No.	Product	CTA Code	Turn Over (₹ in Crore)
1.	Tyres used on motor cycles	4011 4010	43.00
2.	Tyres used on aircraft	4012 13 00	15.00
3.	Conveyor Belts	4010 1990	40.00
4.	Tyres used on forestry Vehicle	4011 7000	27.00
5.	Tyres used on agricultural Vehicle	4011 7000	20.00
6.	Industrial gloves	4015 9030	32.00
<b>Total Turnover</b>			<b>177.00</b>

The CTA code of all the four tyre products used in motor cycles, aircraft, forestry vehicle and agriculture vehicle comes under the Table B of the Rule 3 of Companies (Cost Records and Audit) Rule, 2014. (CCRA, 2014). However, CTA code for Conveyor belts and Industrial gloves is not covered under table B.

As a cost accountant, the managing director of the company seeks your opinion on –

- i. whether the Company is required to maintain cost records with respect to all its product as well as for the captive power generation plant.
- ii. whether the Company is subject to cost audit for all its products and captive power plant.

Please give your opinion with reference to the provisions of the Companies Act, 2013 and Companies (Cost Records and Audit) Rule, 2014 with justifications that you consider necessary. **[8]**



**FINAL EXAMINATION**  
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**SET 2**  
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**COST AND MANAGEMENT AUDIT**

**GROUP – B : Management Audit; Internal Audit, Forensic Audit  
and Anti-Money Laundering [50 Marks]**

**Question No. 6 and 10 are compulsory and answer any two from  
Question No. 7, 8 & 9**

**SECTION – A**

6. **Choose the most appropriate answer to the following questions with brief justification for the selection.** **[5×2=10]**

- (i) The main object of the audit of the cash book may be \_\_\_\_\_. Provide a brief justification for your answer.
- to verify the assets and liabilities.
  - to know that all receipts and payments have been properly recorded.
  - to check the internal control system in business.
  - to check the bank balance
- (ii) The purpose of the audit of wage payment is to determine that \_\_\_\_\_. Provide a brief justification for your answer.
- the work is executed completely for which the workers are paid wages.
  - the workers are paid the correct amount of wages under proper authorization.
  - the workers are working regularly.
  - none of the above.
- (iii) Audit in depth means \_\_\_\_\_. Provide a brief justification for your answer.
- audit of each and every item.
  - intensive audit of each and every item.
  - intensive audit of a few items.
  - audit of a few selected items
- (iv) The most difficult type of misstatement to detect fraud is based on \_\_\_\_\_. Provide a brief justification for your answer.
- related party purchases.
  - related party sales.
  - the restatement of sales.
  - omission of a sales transaction from being recorded.
- (v) Which of the following is not likely to be a fraud risk factor relating to management characteristics and why?
- Tax evasion.
  - Failure to correct known weakness in internal control system.
  - Adoption of conservative accounting principles.
  - D. High management turnover.



PAPER - 17  
COST AND MANAGEMENT AUDIT

SECTION – B

Answer any two questions:

[16 × 2 = 32]

7. (a) (i) What is Cyber Security? What is Computer Forensics?  
(ii) Reconcile the differences between the two. [5+3=8]
- (b) Compare and contrast between the following with brief narratives of examples.  
(i) Auditing around the Computer  
(ii) Auditing through the Computer  
(iii) Auditing with the Computer [3+5=8]
8. (a) Critically assess Information System Audit methodology.
- (b) There are essentially no difference between reporting for Corporate Social Responsibility (CSR) and “Environment, Social & Governance (ESG) by a listed company”. – Do you agree with this statement? Demonstrate your justifications with examples [7+9=16]
9. (a) Analyse the limitations of Internal Control with brief justifications. [8]
- (b) Compare and contrast between Internal Control and Internal Audit. [8]

SECTION – C

10. A Housing Society wants to celebrate Annual Day. Monetary contributions are to be collected equally from all the 64 households. A vendor for beverages has also agreed to contribute some sponsorship money. A Musical Party, Dinner, Cold Drinks, Tea etc. will be served for about 300 family members and friends. Gift item reserved for Children below 10 Years. Make a detailed list of documents to be kept to satisfy the Society Auditor for each head of Income and Expenditure and formulate your justification in support of each of the documents from the perspective of management audit. [8]



Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.  
Where considered necessary, suitable assumptions may be made and  
clearly indicated in the answer.

**GROUP – A : Cost Audit [50 Marks]****SECTION – A**

Question No. 1 and 5 are compulsory and answer any two from Question No. 2, 3 & 4.

1. (a)

Sl. No.	Answer	Justification
(i)	(d)	Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.
(ii)	(c)	For regulated sectors like Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar, Cost audit requirement has been made subject to a turnover based threshold of ₹ 50 crores for all product and services and ₹ 25 crores for individual product or services.
(iii)	(a)	Inherent risk: the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
(iv)	(a)	The cost auditor and his/her team should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of retention of records.
(v)	(a)	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 thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor



## SECTION – B

2. (a) In order to achieve the objectives of the accountancy profession, cost accountants have to observe fundamental principles, to achieve the primary objectives of the profession which are:

(1) **Integrity**

A cost accountant should be straightforward and honest in performing his services.

(2) **Objectivity**

A cost accountant should be fair and should not allow prejudice or bias or the influence of others to override objectivity.

(3) **Competence**

A cost accountant must refrain from performing any service which he is not competent to carry out unless proper advice and assistance is obtained to ensure that the service is performed to the satisfaction.

(4) **Confidentiality**

A cost accountant must not disclose information acquired during the course of his engagement and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.

(5) **Professional Behaviour**

A cost accountant should act in a manner consistent with the good reputation of the profession.

In addition to the fundamental principles above a cost accountant in practice, should be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.

- (b) (i) 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 Lakh
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 License Operations	560
Total Turnover	24,545



(ii) Production management attempts to utilize 6M's:

1. Men,
2. Machines,
3. Money,
4. Methods,
5. Materials, and
6. Market

In order to better serve consumer needs. Its fundamental goal is to produce products and services in the right quantity, quality, on a schedule, and for optimum money. Thus, primary principles of Production Management are:

- Shorter set-up times,
- Small-scale production,
- Empowering employees,
- Equipment Maintenance,
- Pull Production and
- Supplier Involvement.

3. (a) The major requirements of Cost Auditing Standard-103 are listed below:

1. The cost auditor shall comply with the relevant ethical requirements including those pertaining to independence in respect of cost audit engagements.
2. While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit. A Cost Auditing Standard is relevant to the audit when the Cost Auditing Standard is in effect and the circumstances addressed by the Cost Auditing Standard exist.
3. The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
4. The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.
5. In exceptional circumstances, the cost auditor may judge it necessary to depart from a relevant requirement in a Cost Auditing Standard. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement.



6. The cost auditor shall plan and perform an audit with an attitude of Skepticism recognizing that circumstances may exist that cause the Cost Statements to be materially misstated.
7. The auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.
8. The cost auditor shall exercise professional judgment in planning and performing the audit.
9. The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder
10. The cost auditor shall not be required to perform audit procedures regarding the entity's compliance with laws and regulations governing cost audit in the absence of identified or suspected non-compliance

**Cost auditor 's overall objectives are to obtain reasonable assurance:**

- about whether the cost statements as a whole are free from material misstatement due to fraud or error,
- to enable auditor to express an opinion that the Cost Statements are prepared, in all material respects, in accordance with:
  - (a) the applicable Cost reporting framework,
  - (b) Cost Accounting Standards(CAS) and
  - (c) Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and
  - (d) Give a true and fair view of the Cost of a product, activity or service.

**(b) (i) Performance analysis**

**ABC Cement Ltd.**

(I) Rated capacity = 80 MT/Hr: Rated capacity achieved in 2020-21 =  $(72/80) \times 100 = 90\%$

Rated capacity achieved in 2021-22 =  $(64/80) \times 100 = 80\%$ . The capacity achievement as % of rated capacity has declined from 90% to 80% in 2021-22.

Further the Capacity Utilization has gone down to 62.21% in 2021-22 from 82.48% of previous year; a reduction of 20.27%.



(II) From the data available the following observations are noted: -

1. Breakdown hours have gone up from 1,015 hours to 2,177 hrs, an increase by 114.48%
2. Planned Maintenance hrs has reduced from 422 hrs to 247 hrs i.e. by 41.47%
3. Shortfall hrs due to lack of orders has increased from 677 hrs to 792 hrs i.e. by 16.99%
4. The total stoppage hrs. has increased from 4,230 hrs to 4,948 hrs i.e. by 16.97%
5. The total running hrs has come down from 4,582 hrs to 3,888 hrs i.e. by 15.15%
6. The production has come down from 3,29,928 MT to 2,48,844 MT i.e. by 24.58%. From the above findings, it can be pointed out that the under-utilization of capacity to the extent of little over 20% can be attributed mainly to: -
  - Increased total stoppage hours of 4,948 of 2021-22 as against that of 4,230 hrs in 2020-21 and
  - The net increase of 718 hrs (4,948 – 4,230) is again due to increase of break down by 1,162 hrs (2,177 – 1,015) in the year 2021-22.

**(ii) Suggestion:**

Therefore, the Company should look into the aspect of proper maintenance, securing sufficient orders to avoid lost time. Better utilization of capacity can also be achieved by improving availability of wagons. The company may also carry out a cost-benefit analysis to have captive source of power.

4. (a) The cost auditor is required to understand the company's business, its corporate structure and various systems followed during the practical step of audit process.

The company related details and other general details, are gather which includes:

- (1) The company, its nature of activities, its size, product profile, unit locations, ownership structure, management structure, organisational structure, marketing set-up, accounting set-up, etc.
- (2) The nature of the industry or the sector in which client company operates
- (3) The applicable regulatory framework, financial reporting framework and cost reporting framework



## COST AND MANAGEMENT AUDIT

- (5) The company's production process, product details, joint or by-products, outsourcing, if any
  - (6) Details of subsidiaries, associates and joint ventures
  - (7) Key personnel in all departments including in Finance, Accounts, Costing, IT, Administration, Production, Purchase, Sales, etc.
  - (8) Purchase policy, sales policy, pricing policy, export/import policy
  - (9) Inventory receipt, storage, issue & pricing policies; physical verification system; inventory management system
  - (10) Related parties and nature of transactions with them
  - (11) Indirect tax structure, as applicable
  - (12) Internal Control Systems followed by the company
  - (13) Internal Audit System, its scope & adequacy of coverage as well as effectiveness
  - (14) Accounting Systems & Policies followed by the company
  - (15) Cost Accounting System & Policies followed by the company
  - (16) Company's MIS system, risk identification & management system
  - (17) IT structure followed for financial accounting and for cost accounting, IT policy, control checks, authorization checks, IT data security policy
  - (18) Previous auditor's report
- (b)** The following checklist should be considered for audit of production - product wise:
1. Ensure that there is proper inventory balancing for each of the finished product, for example,  
$$\text{Opening Stock} + \text{Production} = \text{External Sales} + \text{Internal Transfers} + \text{Closing Stock}.$$
  2. Ensure that closing stock of previous year is correctly considered as opening stock of current year.
  3. Check the capacity utilisation of previous 5 years - product wise.
  4. For any abnormal under-utilisation of production capacity the auditor should seek the reasons from the management and what steps management has proposed to undertake to overcome under-utilisation of capacity. Under-utilisation of capacity should merit attention and focus where either product is profitable or the product has substantial positive contribution.
  5. Check whether there is any circumstance where there is addition to capacity for any product during the year but actual production achieved is either equal to or less than that of previous year. Reasons for the same should be sought from the management.



6. The cost auditor should ask for MIS Reports as shown in Table 1 & 2.

**Table 1**

**Inventory Balancing of Each of Finished Product**

Products	Unit	Opening Stock	Production	External Sales	Internal Transfers	Closing Stock
1	MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					

**Table 2**

**Product wise Capacity Utilisation of Previous 5 Years**

Products	Capacity Utilisation	F.Y. 2017-18	F.Y. 2018-19	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22
1	%					
2	-do-					
3	-do-					
4	-do-					
5	-do-					

**The importance of the product wise checklist:**

The internal audit checklist stands as a reference point before, during and after the audit process and if developed for a specific audit and used correctly will provide the following benefits: Checklists can be used as a reference for planning future audits.



## SECTION – C

5. In view of the above and my opinion on the issue raised in your query is as follows: -
1. M/s Supreme Industries (P) Ltd. is manufacturing six products along with captive power generation plant. The combined turnover all the products put together including CPP comes to ₹ 210 crores (177+33).
  2. Excluding conveyer belt & Industrial gloves all the four products along with power generation activity comes under the CTA code mentioned under Table (B) and (A) respectively of the Rule 3 of CCRA, 2014.
  3. The Company is fulfilling the turnover criteria for maintain the cost records for its four products (i.e. Tyres for motorcycle, aircraft, forestry vehicle and agriculture vehicles as well as for the captive power plant) which comes under the Table B & A of the Rule 3 of CCRA, 2014. However, maintenance of Cost record for conveyer belt & Industrial gloves is not applicable as it is not under the purview of Table B.
  4. The Tyres for motorcycle, forestry vehicle and agriculture vehicles meet the individual product turnover criteria of ₹35.00 crores. It may be noted that CTA code for forestry vehicle and agriculture vehicle is same i.e. 4011-7000. Hence will be treated as one product and their Combined turnover is ₹ 47.00 crore (₹27 cr. + ₹20 cr.), which is more than ₹ 35.00 crores.

**Conclusion:**

Considering the provisions of the Companies Act, 2013 read with Companies (Cost Records and Audit) Rule, 2014, M/s Supreme Industries (P) Ltd. need to maintain the Cost records and also subject to Cost Audit for products i.e., Tyre for motorcycle, Forestry vehicle and Agriculture vehicles and Captive power plat for the financial year 2022-23. However, the conveyer belt & Industrial gloves is not covered under Table B of CRRAR, 2014, so there is no need for maintenance of Cost record and Cost Audit for that products the financial year 2022-23.



**GROUP – B : Management Audit; Internal Audit, Forensic Audit  
and Anti-Money Laundering [50 Marks]**

**Question No. 6 and 10 are compulsory and answer any two from  
Question No. 7, 8 & 9.**

**SECTION – A**

6.

Sl. No.	Answer	Justification
(i)	(b)	Main objectives of audit of the cash book is to obtain and verify the mathematical accuracy of cash transactions by tracing opening balances to the previous year's documents and by reviewing activity in general ledger accounts for cash.
(ii)	(b)	To ensure that wages are paid at the correct rates of pay. and also to that wages are correctly calculated. To verify all wages transactions are correctly recorded in the books of account.
(iii)	(c)	Audit in depth means checking a transaction extensively from origin to end. it is used in investigation exercise whereby the objective is to thorough examination of transactions of records. Audit in depth means intensive checking of few items thorough out the audit.
(iv)	(d)	For auditors, the most difficult type of misstatement to detect fraud is when the transactions are not recorded. This is difficult because the auditor has no basis and reference on tracing and vouching of documents.
(v)	(c)	Accounting conservatism is a principle that requires company accounts to be prepared with caution and high degrees of verification. All probable losses are recorded when they are discovered, while gains can only be registered when they are fully realized.

**SECTION – B**

**Answer any two questions.**

7. (a) (i) **Cyber security** is a professional discipline that is about creating defensive measures to protect against cyberattacks. People working in this industry may have a wide range of information technology (IT) skills including programming, operating systems, and networking. The primary goal of any cyber security professional is to create a network or system that is impossible to breach, thereby protecting the information within the network.



Cyber security encompasses many protocols that are used in the real world. Things like setting user permissions, establishing file transfer protocols (FTP), and requiring secure, frequently changing passwords are all vital elements of cyber security.

**Computer forensics** is the practice of recovering data from a device, often to uncover evidence of criminal activity. The practice itself is reactionary meaning that only takes place after an incident has occurred and is not concerned with preventing the incident itself.

Computer forensics jobs typically serve one of two purposes. They either assist with an investigation or help people and companies to recover data that has been lost. In the first instance, a computer forensics specialist will be given access to a suspect's device, such as a laptop, desktop, or smartphone, using a variety of skills, such as programming, hardware knowledge, and software knowledge, to locate valuable data. Sometimes, computer forensics specialists are called in to help a company recover lost data. While the purpose of the assignment differs greatly from uncovering evidence of criminal activities, the processes used to recover the lost data are very similar.

(ii) **Reconciliation of the differences between Cyber Security and Computer Forensics**

Cyber security is focused on prevention while computer forensics is about recovery and reaction. Despite their differences, both are meant to protect data, programs, networks, and other digital assets. Cyber security helps to prevent cybercrimes from happening, while computer forensics helps recover data when an attack does occur and also helps identify the culprit behind the crime.

Cyber security and computer forensics both have a few specializations that focus on specific area of the practice. Cyber security has far more specializations, such as systems architecture, software security, access management, ethical hacking, and vulnerability assessment.

Computer forensics specializations tend to be related to the reason why the data is being recovered. The main specializations are criminal investigations, in which the expert is tasked with uncovering data that is relevant to a crime, and data recovery.

Data recovery specialists are mostly concerned with getting data back in the hands of its rightful owner, though they may also perform an audit to find evidence of a data breach if the data was stolen rather than lost through a technical issue.

**(b) (i) Auditing around the Computer**

Under this approach, the emphasis is on checking the correctness of the output data/documents concerning the input of a process without going into the details of the processing involved. This approach is preferred, where auditors themselves do not have the desired level of technical skills to adopt the other approaches. The focus is on procedural controls rather than computer controls. This approach can be used in the following circumstances:

- (1) When an application system is simple, logic is straightforward, and a clear audit trail exists, this approach can be adopted. The process generates the audit trails such as the generation of exception reports along with the main reports.
- (2) This approach may be used when an application system uses a generalized package that is well tested and used by many users as its software platform. If the package has been provided by a reputed vendor, has received widespread use, and appears error-free, the auditors may decide to adopt this approach.
- (3) It does not provide any information about the system's ability to cope with the changes. Systems can be designed and programs can be written in certain ways to inhibit their degradation when user requirements change.

**(ii) Auditing through the Computer:**

Auditing through the computer requires a fair knowledge of the operating system, hardware being used, and certain technical expertise in systems development. Under this approach, the computer programs and the data constitute the target of IS audit. IS auditors can test the application system effectively using this approach. And also use a computer to test logic and controls existing within the system and also records produced by the system.

This approach increases the IS auditor's confidence in the reliability and applicability of the evidence/information collected and evaluated. This approach is time-consuming, as it needs an understanding of the internal working of an application system. It also needs some technical expertise.

**(iii) Auditing with the Computer**

Under this approach, the computer system and its programs are used as tools in the audit process. The objective is to perform substantive tests using the computers and their programs. The data from the auditee's computer system are retrieved in an independent environment. This method is used where:



## COST AND MANAGEMENT AUDIT

- (1) Application system consists of a large volume of inputs, producing a large volume of outputs and where the direct examination of the inputs/outputs is difficult.
- (2) Logic of the system is complex.
- (3) There are substantial gaps in the visible trails.

8. (a) The Information System (IS) audit work includes manual procedures, computer-assisted procedures, and fully automated procedures, depending on whether it is around, though, with, or a combination of all these types of audits. The IS auditors may utilize the manual procedures when they are more effective than the other alternatives or when these procedures cannot be partially or fully automated. He/she should also use computer-assisted procedures known as Computer Assisted Audit Tools (CAATs) because they permit the IS auditors to switch from the procedures based on limited, random, and statistical samples of records in a file to a procedure that includes every record in a file.

Audit activity is broadly divided into 5 major steps for the convenience and effective conduct of the audit

1. Planning IS Audit.
2. Tests of Controls.
3. Tests of Transactions.
4. Tests of Balances.
5. Completion of Audit.

**(1) Planning IS audit:**

Planning is the first step of the IS audit. IS auditors should plan the audit work in a manner appropriate for meeting the audit objectives. As a part of the planning process, IS auditors should obtain an understanding of the auditee department/ office/organization and its processes. It includes an understanding of the objectives to be accomplished in the audit, collecting background information, assigning appropriate staff keeping in mind skills, aptitude, etc., and identifying the areas of risk.

**(2) Tests of Controls:**

During this phase of IS audit, Internal Controls are tested to evaluate whether they operate effectively. This includes testing of management controls and application controls. The objective is to evaluate the reliability of the controls and find out weaknesses of the controls for meeting the IS audit objectives. IS auditor is required to make recommendations to rectify the weaknesses, observed during an IS audit.

**(3) Tests of Transactions:**

Tests of Transactions are used to evaluate whether erroneous transactions have led to a material misstatement of the financial information and whether the transactions have been handled effectively and efficiently. The objective is to evaluate data integrity. Some of such tests include the tracing of journal entries to their source documents, the examination of the price files, the testing of computational accuracy,

**(4) Tests of Balances:**

During this phase of IS audit, final judgment is made on the extent of the losses or account misstatement that occur when Information Systems fail to safeguard assets, maintain data integrity and achieve system effectiveness and efficiency goals. As regards the safeguarding of assets and data integrity objectives, the typical substantive tests used are confirmation of the receivables, physical verification of inventory, and recalculation of depreciation on the fixed assets.

**(5) Completion of Audit:**

This is the final stage of IS audit. Auditors are required to form their opinion, clearly indicating their findings, analysis, and recommendations. Potential IS audit findings should be discussed with the appropriate/authorized personnel throughout IS auditing. The draft audit report should be the natural extension of the exit conference materials along with the discussions that took place during the exit meeting. Once the auditee's responses have been received, the final audit report should be prepared and submitted to the designated authority/ management of the organization.

- (b)** The two terms have some overlapping meaning and are sometimes used interchangeably. But with new tightening expectations on corporate practices and increasing concerns surrounding environmental sustainability, businesses should know what these terms mean, how they differ and where they overlap.

**What is ESG?**

ESG is a quantifiable assessment of sustainability and business practices. ESG strategy focuses on reaching certain performance metrics, setting measurable goals for them and conducting audits to verify that the metrics and related disclosures are accurate. Businesses create ESG reports to appeal to investors and other stakeholders and to meet regulatory compliance requirements.

ESG encourages businesses to behave ethically and helps define a company's financial value and its compliance record. It also helps investors avoid losses when companies act in a risky manner. Different investment firms may rate ESG criteria differently based on their own priorities.

**COST AND MANAGEMENT AUDIT**

The three aspects covered by ESG initiatives are the following:

- Environmental. These criteria may include corporate climate policies, energy use, waste management and treatment of animals.
- Social. These criteria cover the company's relationship with stakeholders other than investors, such as employees or community members. Meeting ESG's social criteria may involve implementing diversity, equity and inclusion initiatives, making donations, encouraging employees to volunteer and engaging in supply chain sustainability and ethics practices.
- Governance. These criteria hold companies to ethical accounting and financial reporting standards and also include factors such as board diversity, executive compensation and rules on ethical business practices.

**What is CSR?**

Corporate social responsibility (CSR) is a self-regulating business model that aims to improve society and the environment. It's a looser, general framework for corporate behaviour that can vary in terms of its implementation. The nature of CSR is qualitative, although the ISO 26000 voluntary standard does help companies define social responsibility and provides practical guidance for achieving it.

ESG and CSR are both ways that businesses can demonstrate their commitment to sustainable business practices. CSR can be seen as the idealistic, big-picture perspective on sustainability, and ESG as the practical, detail-oriented perspective.

**What is sustainability?**

In its broadest definition, sustainability refers to the ability to support and continue a process over time. Corporate sustainability encompasses the business practices that keep a business going and perpetuate its success. Sustainability lets companies meet present needs without compromising the ability of the business to meet its needs in the future.

Business sustainability, as it's also known, is often broken into three pillars:

- (a) Economic, or profit,
- (b) Social, or people, &
- (c) Environmental, or planet.

These three pillars are sometimes referred to as the triple bottom line. The triple bottom line takes a broader view that includes the overall economic value created by companies and their social and environmental impact. The term sustainability is often used in other, non-business contexts to refer to environmental, social, policy or economic sustainability.



CSR can also be seen as the precursor to ESG. Companies self-regulate and commit to sustainable practices with the aim of making a positive impact on society. Then, the efforts undertaken in a CSR strategy can be refined and fit into ESG metrics. ESG data can then later be publicly disclosed and shared via ESG reports. ESG puts a quantifiable stamp of credibility on the broad management philosophy of CSR. A business needs both practices in order to be truly sustainable.

9. (a) “Internal Control comprises the plan of organization and all of the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.” – American Institute of CPAs. However, nothing under the sun is an unmixed blessing and the same is also applicable for ‘internal control’ process also. ‘Internal control’ also having some limitations. They are as follows:
1. Internal control can provide reasonable assurance only, not absolute assurance. Objectives stated e.g., safeguarding of assets from unauthorized access, existence of assets etc. can be achieved.
  2. No control over unusual transactions i.e., controls over which are not mapped.
  3. Collusion among employees allows violation of controls laid down. Possibility of circumvention of controls through collusion with parties outside the entity or with employees of the entity.
  4. Approvers of transactions intentionally overrules the laid down controls i.e., illogical deviations.
  5. Cost of control, should not exceed the benefits to be derived on exercising the control.
  6. Faulty control design, may allow by-passing of controls.
  7. Controls not changed with change of legislations, e.g., GST rates undergone change and the same not updated in system database.
  8. Procedure for periodical review of laid down controls was to be there, else accuracy of controls exercisable/ exercised can’t be ensured.
  9. Management manipulation of the controls for own benefit.



(b)

Parameters of Comparison	Internal Control ( IC)	Internal Audit( IA)
Basis	Internal control refers to the process laid down by Management of the entity	Internal Audit is statutory (barring few exceptions).
Involvement	Employees of the Entity are basically responsible to adhere to controls laid down by management in operational, financial, compliance etc. activities.	IA function can be outsourced and/or by dedicated internal resources.
Objective	IC is the responsibility of management to ensure accomplishment of management objectives.	IA is an independent function and Chief Internal Auditor having a responsibility to report to Board/ Audit Committee.
Time period	IC is exercised simultaneously with transaction/ event happening	IA is a periodical exercise w.r.t operational reviews (except pre-audit as part of IA function considered by some of the entities)
Reporting	Control gaps are pointed out to management for remedial measures.	IA to report on adequacy of function commensurate with size and business of the entity. IA Reports are presented to Audit Committee as a good governance practice.
Scope	Management prerogative	Audit committee approves the scope
Qualification	No specific qualification is defined to assess IC and work with transactions covered under IC	Companies Act 2013 defines qualifications of Internal Audit Head.



**SECTION – C**

- 10.** Required detailed list of documents to be kept to satisfy the society auditor for perspective of management audit:
1. Collection Receipts: Collection from households and other sources, if any
  2. Booking confirmation with necessary agreement copy with landlord (assuming a Hall taken on hire)
  3. Audio, Video arrangement for the day with Bill from Suppliers
  4. Entertainment expenditure Bills from suppliers – Food, Snacks etc.
  5. Bills from performers like Musician, Band etc.
  6. Transportation, travelling (as far as possible original third party Bills, Hire Charges, Tickets etc.)
  7. Gift items, Prizes purchase Bills
  8. Advances paid and adjustment therefor

All Vendor selection based on competitive bids with documentation therefor.



**FINAL EXAMINATION**  
**MODEL QUESTION PAPER**  
**PAPER - 17**  
**COST AND MANAGEMENT AUDIT**

**SET 1**  
**TERM – JUNE 2023**

**Time Allowed: 3 Hours**

**Full Marks: 100**

The figures in the margin on the right side indicate full marks.  
Where considered necessary, suitable assumptions may be made and  
clearly indicated in the answer.

**GROUP – A : Cost Audit [50 Marks]**

**SECTION – A**

**Question No. 1 and 5 are compulsory and answer any two from Question No. 2, 3 & 4.**

**1. (a) Choose the most appropriate answer to the following questions with justification. 1 mark will be awarded for correct answer and 1 mark for justification.:** **[5 × 2 = 10]**

- (i)** Cost Audit was first introduced in the year \_\_\_\_\_. Write the prime rationale behind such introduction.
- a. 1959
  - b. 1965
  - c. 1949
  - d. 1975
- (ii)** In case Royalty and Technical Know-how fee is not directly traceable to a cost object then it can be assigned on the basis of \_\_\_\_\_. Write the justification behind the basis selected by you.
- a. Units produced
  - b. Units sold
  - c. Sales value
  - d. All of the above
- (iii)** Section 2(38) of the Companies Act, 2013, defines the term \_\_\_\_\_ which includes an engineer, a Valuer, a Chartered Accountant, a Company Secretary, a Cost Accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force. Mention the major reason behind such inclusion.



**FINAL EXAMINATION**  
**MODEL QUESTION PAPER**  
**PAPER - 17**

**SET 1**  
**TERM – JUNE 2023**

**COST AND MANAGEMENT AUDIT**

- a. Certified Expert  
b. Authorized Signatory  
c. Expert Authority  
d. Expert
- (iv) Remuneration of the Non-Executive Directors is treated as \_\_\_\_\_.  
Briefly justify your answer.
- a. Employee Costs  
b. Administrative Overheads  
c. Non-Cost Item  
d. Selling & Distribution Overhead
- (v) \_\_\_\_\_ is not a precondition to be fulfilled before conducting Cost Audit.
- a. Objective of Cost Audit  
b. Area, nature and scope  
c. Statutory deadlines  
d. Provisions of the Competition Law
- Provide a brief justification.

**SECTION – B**

**Answer any 2 Questions:**

**[16 × 2 = 32]**

2. (a) State the objectives of the Cost Accounting Standards and the purpose of promulgating such Standards. **[5]**
- (b) The following numbers have been obtained from the Cost Accounting Records of Zenith Ltd.:

<b>Year ended 31st March</b>	<b>2022</b>	<b>2021</b>
<b>Particulars</b>	<b>(Amount in ₹ lakhs)</b>	
Net Sales	14,240	11,400
Other Income	900	600
Export Incentives	160	120
Increase in Value of Stock of Finished Goods	60	30
Raw materials consumed	5,280	4,320
Direct wages, salaries, bonus, gratuity etc.	1,320	1,056



**FINAL EXAMINATION**  
**MODEL QUESTION PAPER**

**SET 1**  
**TERM – JUNE 2023**

**PAPER - 17**

**COST AND MANAGEMENT AUDIT**

Power & Fuel	720	576
Stores and spares	480	420
Other manufacturing overheads	1,290	1110
Administrative Overheads :		
Audit fees	108	90
Salaries & commission to directors	144	120
Other overheads	780	660
Selling and distribution overheads :		
Salaries & Wages	108	90
Packing and forwarding	60	48
Other overheads	750	600
Total depreciation	360	360
Interest Charges :		
On working capital loans from Bank	180	150
On Long term loan from a financial institution	270	210
On Debentures	90	90
Tax paid including provisions	948	600
Dividend paid	1480	810

The company has requested you to calculate the following parameters as stipulated in 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, 2022 and March 31, 2021:

- (i) Value addition
- (ii) Earning available for Distribution
- (iii) Distribution of Earning to the different claimants **[4 + 3 + 4 = 11]**

3. (a) Examine the duties of a Cost Auditor to report fraud as per the related provisions of the Companies Act, 2013 with narratives on objectives and purpose it will serve from the perspective of stakeholders. **[8]**

(b) The following data of Pinnacle Star. Ltd. have been made available to you:

Particulars	2019 - 20	2020 - 21	2021 - 22
Installed Capacity—Ton	250	250	250
Production—Ton	240	230	125
Cost Per Ton (₹)	10,000	10,770	16,600

The poor capacity utilisation in 2021-22 was due to abnormal power-cut. The increases in costs were 5% in 2020-21 and 7% in 2021-22 based on 2019-20



**FINAL EXAMINATION**  
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**COST AND MANAGEMENT AUDIT**

- (i) Calculate the abnormal cost due to power cut.
- (ii) How would you treat these abnormal cost? **[6 + 2 = 8]**
4. (a) Recommend the checklist for auditing sales revenue of manufactured products from the perspectives of Cost Audit. **[7]**
- (b) (i) Analyse the requirements which are to be considered and worked upon for accomplishing the objectives of cost audit.
- (ii) Prepare a list of documents for conducting Cost Audit and briefly narrate the audit process to be followed using the documents listed by you. **[5 + 4 = 9]**

**SECTION – C**

**[8 × 1 = 8]**

5. (a) Super Star Manufacturing Ltd. (SSML), a listed company, produces a product which comes under Non-Regulated Sector and classified under Customs Tariff Act (CTA). The manufacturing process also generates by-products, waste and scrap. Total Turnover of the Company for the financial year 2021-22 is ₹160.00 Crore, the breakup of which is as under:

Sr. No.	CTA Heading	Additional Details	Turnover (₹/Crore)
1.	7401	Waste & Scrap	30
2.	7405	Products Manufactured	80
3.	7406	By Product	50
<b>TOTAL</b>			<b>160</b>

SSML has solicited your considered views in the form of a letter to the Managing Director of SSML, advising with justifications about the applicability of provisions of maintenance of cost records and audit thereof keeping in view that the turnover of all the above items individually is below ₹100.00 crore. **[8]**



PAPER - 17  
COST AND MANAGEMENT AUDIT

**GROUP – B : Management Audit; Internal Audit, Forensic Audit  
and Anti-Money Laundering [50 Marks]**

**Question No. 6 and 10 are compulsory and answer any two from  
Question No. 7, 8 & 9.**

**SECTION – A**

**6. Choose the most appropriate answer to the following questions with brief justification  
for the selection. [5×2=10]**

- (i) For on-line product sale by a Company which one of the following areas the Internal Audit Head should focus on and why?
- Price difference with brick and mortar shop
  - (b) Returns by Customers (30% of sales)
  - (c) COD (Cash On Delivery) collection
  - (d) IT Controls
- (ii) On which of the following does scrap sale value realization depend and why?
- Segregation of scrap
  - Vendor
  - As is where is basis
  - Seller
- (iii) Which of the following is based on the principle of ‘division of work’ and why?
- Internal Control
  - Internal Check
  - Internal Audit
  - All of the above
- (iv) Which of the following is a component of cyber security and why?
- Internet of Things
  - AI
  - Database
  - Attacks
- (v) Which of the following is NOT a main element of purchasing function and why?
- Placing orders
  - Receiving purchase invoices
  - Goods received
  - Decisions at board level on whether to incur capital expenditure



PAPER - 17  
COST AND MANAGEMENT AUDIT

**SECTION – B**

**Answer any two questions.**

7. (a) (i) Briefly analyse the benefits that can be derived from ‘energy audit’?  
(ii) Briefly narrate methodologies for ‘energy audit’. [3+5=8]
- (b) List certain gaps that may be found in an Energy Audit Report and recommend corrective actions to be initiated to fill up the gaps. [3+5=8]
8. (a) Analyse the rationale behind conducting Management Audit and the major differences with Internal Audit. [8]
- (b) Prepare a list of the desirable qualities of a Management Auditor with brief narratives for each of them. [8]
9. (a) Evaluate the essential features of a good Management Audit Report. [7]
- (b) Critically analyse the objectives and features of Environmental Audit. [9]

**SECTION – C**

**(Answer any One)**

**[8x1=8]**

**10. (a) Room Sales and Cash Collections**

- (i) Grade-wise (Ordinary, Luxury, Super Luxury) Room tariff and booking as per Front Office and verification with Billing Desk to ensure appropriate billing for room-nights. Room Service (food drinks, laundry), Minibar (Fridge kept inside room with food, drinks and beverage) material, sports facility usage etc. recorded and billed appropriately for collection. There are various sales points scattered in a hotel and sales are both for cash and credit. The control over cash is very important. The charge for room sales is made from the guest register, and tests are to be carried out to ensure that the correct number of guests are charged for the exact period of stay. Any difference between the rate charged to the guests and standard room rent is to be investigated to see that it is properly authorized. Credit Card/Debit Card,



**COST AND MANAGEMENT AUDIT**

cash, Foreign Exchange and Cheque (Corporate Bookings), RTGS/NEFT etc. to be tallied with Bill value.

- (ii) Daily room occupancy report, Check In – Check Out Record and Billing for occupancy to be validated on daily basis. The total sales reported with the total bills issued at each sales point have to be reconciled.
  - (iii) Food Bills with KOT (Kitchen Order Token) and signed Customer copy as evidence for consumption, other facility charges with respective facility usage token as per prevalent tariff. Special care must be taken in respect of bills issued to customers who are staying in the hotel, because they may not be required to pay the bills immediately in cash but at a future date or by credit cards. Billing is to be done room-wise. It must be ensured that all customers pay their bills on leaving the hotel or within specified dates.
- (b) You have audited the ‘Quality Process’ of Good Limited and observed few areas of concern, which are supposed to be worked upon by the entity to improve the product quality. The draft audit report shared with HOD Quality and a discussion to take place for improvement and adoption. Prepare a brief mock discussion with QC Head.



Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

**GROUP – A : Cost Audit [50 Marks]****SECTION – A**

Question No. 1 and 5 are compulsory and answer any two from Question No. 2, 3 & 4.

1. (a)

Sl. No.	Answer	Justification
(i)	(b)	In 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.
(ii)	(d)	In case Royalty and technical know-how fee is not directly traceable to a cost object then it shall be assigned on any of the following basis, namely: - (i) Units produced (ii) Units sold (iii) Sales value
(iii)	(d)	Section 2(38) of the Companies Act, 2013, defines the term 'expert' which includes an engineer, a Valuer, a Chartered Accountant, a Company Secretary, a Cost Accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force.
(iv)	(b)	Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute will be considered as part of the Employee Cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits. Explanation: Remuneration paid to Non-Executive directors shall not form part of Employee Cost but shall form part of Administrative Overheads.
(v)	(d)	The cost auditor should fully understand the (1) Objectives of cost audit (2) Area, nature and scope of audit (3) Number of cost auditors appointed (4) The applicable reporting framework (5) The reporting period (6) The statutory deadlines



## SECTION – B

2. (a) **The objectives** of the Cost Accounting Standards:

- Provide a structured approach to measurement of costs in manufacturing process or service industry;
- Integrate, harmonize, and standardize cost accounting principles and practices;
- Provide guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products or services;
- Arrive at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;
- Enable practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost Statements; and
- Assist in clear and uniform understanding of all the related issues of various user organisations, government bodies, regulators, research agencies and academic institutions.

**The purpose of promulgating** such standards is to verify the correctness of cost accounts. Cost Accounting Standards are guidelines for the companies [for the management] that specify the cost accounting treatment for various cost elements, minimum disclosure requirements and ensure the comparability, consistency, and completeness of cost records. These standards are designed to achieve uniformity and consistency in cost accounting principles and practices.

(b) Annexure to Cost Audit Report:

Part D-3: Value Addition & Distribution of Earnings (For **Sanghamitra Ltd.** as a whole)

(Amount in ₹ lakhs)

SI. No.	Particulars	Current	Previous
		Year 2021-22	Year 2020-21
	<b>Value Addition:</b>		
1.	Net Sales	14,240	11,400
2.	Add: Export incentives	160	120
3.	Add/(Less): Adjustment In Finished Stocks	60	30
		14,460	11,550



	Less: Cost of bought out input:		
	(a) Cost of Raw materials consumed	5,280	4,320
	(b) Consumption of stores and spares	480	420
	(c) Power & Fuel	720	576
	(d) Other overheads	3,168	2,658
	(1290+108+780+60+750+180) = 3168		
	(1110+90+660+48+600+150) = 2658		
	<b>Total cost bought out inputs</b>	<b>9,648</b>	<b>7,974</b>
4.	<b>Value Added:</b>	4,812	3,576
5.	Add: Other income	900	600
6.	Add: Extra ordinary income	---	-----
7.	<b>Earnings available for distribution</b>	<b>5,712</b>	<b>4,176</b>
	Distribution of earnings to:		
(a)	Employees as salaries and wages, bonus, gratuity etc.	1,428	1,146
	Directors- Salaries and commission	144	120
(b)	Shareholders as dividend	1260	690
(c)	Company as retained funds (including depreciation)	1,352	1200
(d)	Government as taxes		
	Dividend Distribution Taxes	220	120
	Income taxes paid (including provisions)	<u>948</u>	<u>600</u>
		1,168	720
(e)	Providers of Capital/Fund as Interest on Debentures:	90	90
	Interest on Debentures:	<u>270</u>	<u>210</u>
	Interest on Fixed Loans from IDBI	360	300
	<b>Total distribution of earnings</b>	<b>5,712</b>	<b>4,176</b>

3. (a) The duties of a Cost Auditor to report Fraud as per Section 143 of the Companies Act, 2013 are as follows:
- According to Section 143(12) of the Companies Act 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.
  - Sub-Section 13 specifies that no duty to which an auditor of a company may be subject shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.



## COST AND MANAGEMENT AUDIT

- (iii) Sub-Section 14 makes it clear that the provisions of this section shall mutatis mutandis apply to the cost accountant in practice conducting cost audit under section 148.
- (iv) According to Sub-Section 15 if any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.
- (v) Matters are required to be reported immediately but not later than 2 days of his knowledge specifying:
- Nature of Fraud with description;
  - Approximate amount involved; and
  - Parties involved.
- (vi) Following disclosures are required to be made in Board's Report:
- Nature of Fraud with description;
  - Approximate Amount involved;
  - Parties involved, if remedial action not taken; and
  - Remedial actions taken.

(b)

Particulars	2019-20	2020-21	2021-22
Installed Capacity – Ton	250	250	250
Production – Ton	240	230	125
% of Capacity Utilisation	96	92	50
Cost per Unit (₹/Ton)	10,000	10,770	16,600
Escalation factor	100	105	107
Cost at base year price	10,000	$\left(10770 \times \frac{100}{105}\right)$ i.e. 10,257	$\left(16600 \times \frac{100}{107}\right)$ i.e. 15,514
Total cost of production (₹)	24,00,000	23,59,110	19,39,250
Variable Cost/Ton (₹)	4,089	4,089	3,999
Fixed Cost/Ton	5911	6,168	11,515
Fixed Cost @ 100% utilisation (₹)	$\left(5911 \times \frac{240}{250}\right)$ 5,675		

Hence, increase in Fixed Cost/Ton due to poor capacity utilization in 2021-22

$$= (11,515 - 5,675) = ₹5,840$$

- Total abnormal cost due to power cut =  $5,840 \times 125 = ₹7,30,000$
- The abnormal cost must be excluded from computation of cost and has to be shown under Para 7 of the Cost Audit Report as “Abnormal Non-Recurring Cost”.



## COST AND MANAGEMENT AUDIT

The 50% under-utilisation of capacity being due to power-cut only, Priyangshu Ltd. should consider possibility of captive generation, if the power-cut is likely to persist. Accordingly, the investment needed, potential savings, etc. must be computed to determine the viability of such a decision.

**Working Notes:**

Particulars	2020-21	2021-22
Difference in Total Cost	[24,00,000 – 23,59,110] = 40,890	[23,59,110 – 19,39,250] = 4,19,860
Difference in production	10	105
<b>Hence, Variable Cost</b>	<b>4089</b>	<b>3999</b>

4. (a) **Following checklist** should be kept in view to audit sales revenue of manufactured products:

1. More focus should be on products of A category and B category in terms of sales value.
2. Check whether efforts have been made to increase sales realisation to absorb any increase in variable cost so that contribution of product or net margin is maintained.
3. Check whether efforts have been made to procure more orders for product/products having higher contribution.
4. Check whether company has diverted resource allocation from high volume/low contribution products to high contribution products.
5. Check whether there is any expansion of production capacity for product/products enjoying higher contribution.
6. Check that there is a proper balance between the opening stock, production, sales and closing stock in order to ensure no unnecessary locking up of working capital in terms of closing stock.
7. Check that any increase in production capacity has resulted in increase in sales quantity without affecting corresponding sales realisation.

(b) (i) **The above requirements are to accomplish the objectives** of cost audit:

- (1) To verify that the cost accounting records (or costing books) are accurate.
- (2) To certify that costing principles have been fully adhered to in maintaining cost accounts.
- (3) To find out whether the predetermined cost accounting procedures and processes have been strictly followed by the management.



**COST AND MANAGEMENT AUDIT**

- (4) To detect errors and frauds, which might have been committed intentionally or otherwise in preparing cost accounts.
- (5) To check whether each item of expenditure involved into the relevant components of goods manufactured has been properly incurred.
- (6) To see how far the existing practices of cost records are helpful for the management to take decisions etc..

**(ii)** Audit Documentation means the material including working papers prepared by and for, or obtained and retained by the cost auditor in connection with the performance of the audit.

Preparation of some suggestive list of documents for conducting cost audit

1. Letter from the company along with a set of completed cost statements for auditing the same.
2. Approved /signed copy of annexures and date of Board meeting (circular resolution) approving the same.
3. Cost accounting policy
4. Basis of Inventory Valuation.
5. A note on budgetary control system etc.

Cost Audit Procedures comprise the following three steps:

1. Review
2. verification
3. Reporting



## SECTION – C

5. (a)

To  
The Managing Director  
M/s Super Star Manufacturing Limited

Dear Sir/Madam,

This has reference to query vide your letter dated \_\_\_\_\_ seeking opinion on applicability of the provisions of maintenance of cost records and audit thereof.

My opinion on your query is as follows.

As the turnover of the main product manufactured by company is more than ₹35.00 crores and the total turnover of the company is above ₹100.00 crores, the provisions of maintenance of cost records and audit thereof is applicable to the company as per the provisions of The Companies (Cost Records and Audit) Rules, 2014 (as amended). However, the same is applicable of the main product only i.e. CTA code 7405.

Further Waste and scrap are generated out of a manufacturing process. For payment of duty, it gets classified under a CTA Code. It is not a product and hence cost audit of scrap is meaningless and not applicable. Therefore, the Cost Audit is not applicable to the Waste and scrap are generated.

Same is the case with By-Product. It is not a product by itself but comes out of a manufacturing process. In case the By-Product is sold as such without any further processing, the realisable value is usually credited to cost of production of the main product. In such a case, preparation of a separate cost statement does not arise.

However, where there is further processing of the By-product before being sold, then there would be a separate cost statement to arrive at a profit/loss arising on such By-product. Such cost statement would form part of the cost audit report.

Hope you will find the above in order.

Thanking You.

**GROUP – B : Management Audit; Internal Audit, Forensic Audit  
and Anti-Money Laundering [50 Marks]**

**Question No. 6 and 10 are compulsory and answer any two from  
Question No. 7, 8 & 9.**

**SECTION – A**

6.

Sl. No.	Answer	Justification
(i)	(d)	The sales and collections cycle in a business refers to the set of processes that begin when a customer purchases goods or services and ends when your business receives payment in full. As part of the year-end audit of the financial statements, external accountants test sales transactions and the internal controls over those transactions to ensure the company is not materially misstating its revenues or accounts receivable.
(ii)	(a)	The first step in this analysis is to develop an in-depth understanding of the factors influencing scrap disposition decisions, so that one can predict current and future practices under existing requirements and compare them to the potential effects.
(iii)	(b)	An internal check is a continuous process of the accounting system to check for errors or fraud in bookkeeping operations for early detection and prevention. The internal check is an arrangement of the duties of the staff members of the accounting functions in such a way that another automatically checks the work performed by a person.
(iv)	(a)	The Internet of Things (IoT) links many types of data-gathering sensors and other equipment that previously ran in isolation to existing computer networks. Cyber criminals are increasingly targeting smart connected devices as entry points to corporate networks. Data security professionals now see cyber security for the Internet of Things as one of the most important aspects of their jobs. The Internet of Things is already beginning to transform consumer, business and industrial processes and practices.
(v)	(d)	Purchasing function of an organisations constitutes all the three mentioned here as placing orders, receiving purchase invoices and also goods received but decisions taken at the board level on whether to incur capital expenditure is not a constituting element of purchasing function.



## SECTION – B

Answer any two questions.

7. (a) (i) Energy Audit is an effective tool in defining and pursuing comprehensive energy management programmes. It has a positive approach aiming at continuous improvement in energy utilization in contrast to financial audit which stresses maintaining regularity. An energy audit provides an answer to the question – what to do, where to start, at what cost, and for what benefits? Energy Audit helps in energy cost optimization, pollution control, safety aspects and suggests the methods to improve the operating and maintenance practices of the system. It is instrumental in coping with the situation of variation in energy cost availability, reliability of energy supply, the decision on appropriate energy mix, the decision on using improved energy conservation equipment, instrumentations, and technology. It has been established that energy saving of the order of 15 to 30% is possible by optimising the use of energy by better housekeeping, low-cost retrofitting measures, and use of energy-efficient equipment at the time of replacements. Indian industry consumes more energy as compared to its counter parts in the developed countries. Energy Audit is the key to a systematic approach for decision-making in the area of energy management. Energy Audit is defined as “the verification, monitoring, and analysis of the use of energy including submission of technical report containing recommendations for improving energy efficiency with cost-benefit analysis and an action plan to reduce energy consumption”.
- (ii) Energy Audit can be classified into the following two types.
- Preliminary Audit.
  - Detailed Audit.

**Preliminary Energy Audit Methodology:**

A preliminary energy audit is a relatively quick exercise to:

- Establish energy consumption in the organization.
- Estimate the scope for saving.
- Identify the most likely and the easiest areas for attention.
- Identify immediate (especially no-/low-cost) improvements/ savings.
- Set a ‘reference point’.
- Identify areas for more detailed study/measurement.
- A preliminary energy audit uses existing, or easily obtained data.



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**Detailed Energy Audit Methodology**

A comprehensive audit provides a detailed energy project implementation plan for a facility since it evaluates all major energy-using systems.

**(i) The main aims of Energy Audit are:**

- To finalise Energy Audit team.
- To identify the main energy-consuming areas/plant items to be surveyed during the audit.
- To identify any existing instrumentation/ additional metering required.
- To decide whether any meters will have to be installed before the audit e.g., kWh, steam, oil, or gas meters.
- To identify the instrumentation required for carrying out the audit.
- To plan with the time frame.
- To collect macro data on plant energy resources, major energy consuming centres.
- To create awareness through meetings/programmes.

**(b)**

Significant Gaps Observed	Recommendations/Corrective Actions
Attempt in reducing the energy expense and carbon footprint not visible	A task force with qualified Electrical Engineers need to be formed for close monitoring of energy consumptions datum to pre-empt possibility of gap mentioned
Sign boards indicating Switch OFF / ON, Danger at Electrical equipment and Power transformers in the campus was to fitted with proper illumination	HOD safety and Electrical Dept. being appraised on the possible impact on electricity consumption and unsafe areas near Power Equipment
The details as to usage/operational datum of battery operated / electric vehicles, biofuel use, exhaust fans, boiling water system, chillers and geysers on energy savings mode etc. was to be maintained	The Equipment-wise operational datum for the mentioned Equipment need to be maintained
Absence of Automatic Lighting Shutoff with occupancy Sensors and Timers, Exterior/Interior lighting control facility	Suggested relevant mechanism for implementation



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Total carbon footprint divided by total Plant area population (metric tons per person) was to be captured	Suggested maintenance of relevant datum
Total electricity usage divided by total campus' population (kWh per person) was to be measured	Process of capturing appropriate datum explained for immediate action
Implications of alternative energy efficiency measures sufficient to satisfy the financial criteria of sophisticated investors needs attention	Appraised for implementation

8. (a) A Management Audit is an independent review, analysis, and assessment of the competencies and capabilities of a company's management in carrying out the corporate objectives. The purpose of a Management Audit is not to appraise individual executive performance but to evaluate the management teams in its effectiveness

A management audit is an assessment of how well an organization's management team is applying its strategies and resources. A Management audit is carried out by internal team as well as by appointing evaluates whether the management team is working in the interests of shareholders, employees, and the company's reputation. Area of Management audit is beyond conventional audit. It covers planning, organizing, coordination, processes and control, etc. Management audit detects and diagnoses the problem and suggests various means to avoid and resolve the problems. Management audits are often conducted before mergers, restructurings, bankruptcies, and succession planning etc.; they can identify weaknesses in a company's management.

**Objectives of Management Audit:**

- It helps management in setting appropriate decision making sound and effective targets.
- It suggests management in getting desired results and revealing any defects and irregularities in the process of management.
- Management audit helps the management in the effective discharge of their duties and responsibilities.
- It helps in identification of process gaps and strengthening of controls. the coordination of various departments.
- Appropriate cost effective implementation of plans.

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Management Audit might address many important issues like:

- Appropriateness of Organization Structure and reporting
- Coordination among Departments to accomplish management objective
- Suggesting a 'risk management' structure for better governance
- Stakeholder management
- Project evaluation including growth budget and appropriation methodology

Management Audit encompasses all areas where management decision making and actions are involved.

**The basic difference between Internal Audit and Management Audit lies in statutory recognition.** Internal audit is a statutory obligation while Management Audit non-obligatory. To Assess performance of the Management Team, this audit procedure is resorted to. Companies Act 2013, specifies eligibility of CIA (Chief Internal Auditor) while no such qualification is attached with Management Audit Head. Both Management Audit and Internal Audit can be performed by Internal resources, Outsourced Agencies and a combination of both. CIA reports to Audit Committee while Management Audit Team reports to Chief Operating Officer/MD i.e., highest management authority. Audit Committee prescribes /approves Internal Audit Plan. Management decides on areas to be covered by Management Audit Team.

**(b) Qualities of Management Auditor:**

The management auditor should have the following qualities:

- A management auditor should have good knowledge and experience of all Managerial Functions.
- An Auditor should have good knowledge of financial, cost statements analysis techniques.
- He who knows about economics and business laws, etc.
- Understanding of Organization structure and decisions taken by management the working of the organization and its problems is also required.
- Through understanding of all processes and control aspects.
- He should know and understand the objectives of the organization very well.
- He should understand planning, budgets, rules, and procedures to be applied in management reviews.
- He should be well-versed with the entire production process.



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- He should have enough knowledge and experience to understand the reason behind the lack of coordination between different departments.
- He should have the quality of giving practical and achievable solutions to the problems in the organization.

To summarise the desired quality expectations, we can use 8 Cs -

- Clarity.
- Courtesy.
- Credibility.
- Consistency.
- Competency.
- Comprehension.
- Communication.
- Certified professionalism.

9. (a) Management Audit Report (MAR) is the reflection of the quality of review performed in various areas. It is important to prepare a good MAR. A good MAR can motivate the management and get the required results.

**Essential features of the Management Audit Report (MAR):**

The detailed features of a good management audit report can be summarized as follows:

- (i) Pertinence
- (ii) Comprehensiveness
- (iii) Brevity
- (iv) Timeliness
- (v) Motivating
- (vi) Appropriate
- (vii) Data based to support outcome

The management audit report should create awareness among the management of prudent management practices that can make the organization come alive. It is a very important function of management audit to help the change management mindset.

Report discussion with management and buying in of suggestions for implementation in time bound manner improves governance and a hallmark of progressive management and Organization. The report should be drafted and structured so that it makes a logical presentation to the management and makes it easily readable. management audit report relies heavily on accepted managerial practices and feasible solutions.



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Salient features for these special reports are briefly discussed below:

**(1) Reports for banks and creditors.**

The form and content of financial statements and schedules are important to the lender but explanatory notes to the statements and schedules are perhaps more important to them. The reliability of the report is an important factor. All statements by the auditor should be clear and positive.

**(2) Report to shareholders**

The report is read by financial experts, bankers, tax authorities, public officials, and research people. The report should, therefore, be useful in analytical details for its user, and give full facts about the organization's business. Experts read "between the lines" of the auditor's report. It will ultimately reflect in the auditor.

**(3) Reports to employees**

Reports for employees are mainly prepared for a better understanding of the business, to dispel any misconceptions, counter charges by unions, or explain the need for continuance of the business in times of strike, competition, or sickness.

**(4) Reports for small business**

The form of annual accounts and other requirements under the Companies Act is the same for a large or a tiny private company. A great deal of reporting for small businesses is subjective, due to a lack of adequate data. This poses problems in analyzing and comparing data. Suggestions in the report must be based on a proper appraisal of the problem.

The report of the management auditor will leave a permanent impact on the user regarding his competence, integrity, and honesty.

**(b) Objectives of Environmental Audit**

Prime objective of Environment Audit is to protect 'mother nature' and minimize the negative impact on environment for undertaking industrial activities. The aim is to ensure that the natural resources are utilized for industrial development and national progress and at the same time, to see that proper steps have been undertaken for maintaining the health, the welfare of the community, and also for dispersal of harmful wastes and social risks.

At the corporate level, there are some environmental responsibilities facing companies like meeting regulatory requirements, cleaning up pollution that already exists, properly disposing of the hazardous material, disclosing to the investors the amounts and nature of the preventive measures taken by the management,



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operating in a way that environmental damage does not occur, and promoting a company-wide environmental attitude.

The following are major objectives of environmental auditing:

- (i) Determine and document compliance status.
- (ii) Help to improve environmental performance at operational facilities.
- (iii) Assist facility management.
- (iv) Increase the overall level of environmental awareness.
- (v) Accelerate the overall development of the environmental management control system.
- (vi) Improve the risk management systems.
- (vii) Protect the corporation from potential liabilities on breaches.
- (viii) Conservation policy and application guidance.
- (ix) Fund allocation and utilization w.r.t environment protection.
- (x) Develop a basis for optimizing environmental resources.

**Features of Environmental Audit**

The following are the features of environmental audit:

- (i) **Role of Management tool:** Internal assessment through IA Team. Environmental audit is generally considered as one of the management tools which is a part of the internal control system and is mainly used to assess, evaluate and manage the environmental performance of a company.
- (ii) **Environmental Impact Assessment (EIA):** Risk and impact is the basis for any mitigation plan. EIA is a tool used to predict, evaluate and analyse environmental impacts w.r.t upcoming Projects, mostly before a project commences, expansion plans etc. It assesses the potential environmental effects of a proposed facility. Whereas environmental audit looks at environmental performance for an existing operation or activity with impact assessment on account of non-conformity.
- (iii) **Systematic:** audit is a systematic process that must be carefully planned, structured, and organized. As it is a part of a long-term process of evaluation and checking, it needs to be a repeatable process so that over time, it can be easily used by different teams of people in such a way that the results are comparable and can reflect the change in both quantitative and qualitative terms.
- (iv) **Documentation:** Like any other audit, the base of any environmental audit findings also need to be backed-up is that its findings are supported by



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documents and verifiable information. Management need to ensure appropriate methods for environment related data collection and preservation, so that same can be perused for review purposes.

- (v) **Continuous Review Periodic:** Monitoring of environmental performance against regulations and/or benchmarking the same is a continuous activity. Regular collection of actual measurement datum and review, finding out ‘root cause’ for deviations from norms set can help in taking steps on timely basis. Environmental audit is generally conducted at pre-defined intervals.
- (vi) **Objective Evaluation:** Other than environmental performance and compliance against specific regulatory matters, at times accreditation, certification, taking part in environmental survey etc. also comes up with enhanced objectivity. In addition to internal environmental audits, service of independent audit teams having specialized skills for repeat audits also resorted to. This is also required under many certification guidelines (e.g., ISO 14001).
- (vii) **Environmental Performance:** As mentioned before, the essence of any environmental audit is to find out how well the environmental organization, environmental management, and environmental equipment are performing. The ultimate aim is to ensure that organization’s environmental performance meets the goals set in its environmental policy and also to ensure compliance with standards and regulatory requirements.

## SECTION – C

## 10. Room Sales and Cash Collections

## A. Receipt and Payment verification:

- (a) Consumption shown in various physical stock accounts must be traced to the customers’ bills to ensure that all issues to the customers have been billed.
- (b) All payments to the foreign collaborator, if any, are to be checked. Agency commission agreements and spent validation. Payment made to Brand Owner as per arrangement
- (c) Expenses and receipts are to be compared with figures of the previous year, having regard to the average occupancy of visitors and changes in rates.
- (d) Special receipts on account of letting out of auditorium, banquet hall, spaces for shops, boutiques, and special shows, marriage parties etc. should be verified with bookings and the arrangements made.



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- (e) In depth check should be carried out on the customers' ledgers to verify that all charges have been properly made and recovered.  
The occupancy rate should be worked out, and collection made against the same. Benching of rates with other similar hotels and same quality of services, and with previous year. Material deviations should be investigated.
- (g) Expenses for painting, decoration, renovation of building, etc. are to be properly checked.
- (h) It is common that hotels get their bookings done through travel agents. The auditor should ensure that the money is recovered from the travel agents as per credit terms allowed. Commission paid to travel agents should be checked by reference to the agreement on that behalf.
- (i) Apart from control over stock of edibles, control over issue and physical stock of linen crockery, cutlery, glassware, silver, toilet items, etc. should be verified.
- (j) The auditor should verify the restaurant bills with reference to KOT (Kitchen order Ticket).
- (k) The auditor should ensure that all taxes have been included in the client's bills.
- (l) Computation and payment of salaries and wages vis-a-vis number of employees must be checked.

**Stock:**

- A. Utensils purchased, records for issue to Housekeeping/Kitchen etc. to be regularly updated and periodically verified. The stocks in a hotel like all saleable items, food and beverages need to be compared with Kitchen and other relevant records, consumption of raw items etc. These should be physically verified (with or without surprise element) at periodic intervals.
- B. The following may be noted in this regard:
- (a) Food procurement and Issue to Kitchen, KOT validation process with Guest Orders. Stale, outdated food to throw Bin also be recorded for reference. All movement and transfer of stocks must be properly documented.
- (b) Store Keeper is responsible for all movement records to justify stock at hand. Areas where stocks are kept must be kept locked and the key retained by the departmental manager. A key holding register (shift-wise) to be maintained to fix responsibility w.r.t noticing mishandling at the time of verification, if any.



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- (c) Unauthorized persons should not be permitted in the stores area without specific permission.
- C. Many hotels use specialized professional valuers to count and value the stocks on a continuous basis throughout the year. Periodical physical verification and documented valuation process need to be adhered. The auditor should ensure his presence at least for part of the time during verification process to strengthen vigil. The Auditor to considered that all stocks are valued at the year end.
- E. Fixed Assets Register with all necessary noting as to installation date, cost, description, life class etc. to be maintained and depreciation on reporting dates to be computed. The fixed assets should be properly depreciated, and the Fixed Assets Register must be updated.
- (v) Section-wise/Cost Centre-wise detail e.g., manpower deployed, maintenance spent, wages, managerial expenses etc. to be maintained on regular basis for cost analysis and necessary help in decision making.
- Casual Labour: In case the hotel employs a casual Labour, the auditor should consider, whether adequate and accurate records have been maintained in this respect. Automated time recording facility is now available in most of the hotels and time clocked there collected for considering attendance.
  - The wages payment of the casual Labour must also be checked thoroughly.
  - Cost – Revenue comparison facility-wise (Swimming Pool, Golf Course, Spa etc.) to be monitored for service level assessment with recovery rate /change required to maintain service level.
  - The compliance with all statutory provisions, and compliance with the Foreign Exchange (FE) Regulations must also be verified by the auditor, especially because hotels offer facility of conversion of foreign exchange to rupees/Receiving FE from foreign travelers.
- (b) **Mock Discussion**
- Audit Team Lead : Good evening Sir
- QC Head : Hi, Fine. Gone through your points. I have another meeting lined-up and hope we will be able to conclude by next half an hour.
- Audit Team Lead : Sure. But major issue on authority structure for approval of coal samples and sample collection process requires a detail modus of operation disclosure from your side.



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QC Head : Mr. Agile, You know I have three Quality Managers manned in each of the shift. They are basically scientist. How they can sign-off 30 results per eight hour shift after thorough scrutiny. Hence, I instructed the casual workmen who are involved in sample collection and testing to sign-off within specification ones and outliers are approved by the Scientists.

Audit Team Lead : Yah, Mr. Worthless. That is why, we have suggested auto sampling and a 'process note' also appended with our recommendation. This will reduce the risk of manipulation in manual sampling, ,if any. The Augur will number the sample and will carry out online test and outliers will be identified for rejection/reduction of rate. This will help the scientists to perform in a better way.

QC Head : Understand. But what will happen to the Contract workforce.

Audit Team Lead : Sir to run the Augur , two workmen is required in each shift . They need to be trained before deployment. Rest can transferred on wherever required basis. But, that's HR baby.

QC Head : Fine, but what about investment in machinery, Computers etc. to get on-line results.

Audit Team Lead : You can place a 'Growth Budget' and capital investment will surely more than compensate the cost of contractual deployment.

QC Head : Yes, the extra workmen can be deployed for heaping, shifting , placement of rakes etc. where numbers are required.

Audit Team Lead : Sir, SOP is also silent on GCV ( Gross Calorific Value )and NCV ( Net Calorific Value) parameters for imported Coal. We strongly feel, the same to be specified.

QC Head : Look, we can't reject and return the imported material and hence putting a parameter is of no use. Moreover, we have started using imported coal only from last two years. Managing production requirement is more important and challenging due to break out of Pandemic.

Audit Team Lead : Sir, but we can always ask for compensation due to lower GCV, NCV of the coal supplied. The Lab Team to point out acceptable level in SOP.

QC Head : That's fine. Will do. I have just sent an SMS , that the other meeting to be re-scheduled. Next point please.

Audit Team Lead : Our User Plant at 'zero' , tests Iron Ore coming from our own 'Poor Mines' , but we do not have Quality testing facility at the Mines. Unless test laboratory is there, how are sure that contamination not happening en-route? Once, we compare results of both the ends, can conclude on what went wrong.



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QC Head : Again it's cost issue. Setting a lab facility at 'poor mines' will cost approx. Rs.25 Lacs.

Audit Team Lead : Agreed Sir. But the expert who worked with us, opined that Ores mined are better than what we are getting here, considering the distance between the two places i.e., 500 Km. contamination by Transporters is possible. Hence, we suggest, Lab facility at both the ends, one side test is not anyway helping us.

QC Head : Thanks a ton. Your supportive role for enhancing business interest is appreciable and we are going to take-up the issues with MD and COO for help in implementing your suggestions.

Audit Team Lead : Thanks , it's your thought on business excellency.



FINAL EXAMINATION

SET - 1

MODEL ANSWER

TERM – DECEMBER 2023

PAPER – 17

SYLLABUS 2022

COST AND MANAGEMENT AUDIT

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.  
Answer Question No. 1 and any five from Question No. 2, 3, 4, 5, 6, 7 and 8.

**SECTION – A (Compulsory)**

**1. Choose the correct alternative. [15 x 2=30]**

- (i) The form in which cost records shall be maintained:
- CRA -1
  - CRA -2
  - CRA -3
  - CRA -4
- (ii) The Cost Auditing Standard which deals with Cost Audit Documentation:
- 101
  - 102
  - 103
  - 104
- (iii) The cost auditor of the company who is in default in compliance with section 148 shall be punishable in the manner as provided in:
- Section 139 of Companies Act, 2013
  - sub-sections (1) to (3) of section 148 of Companies Act, 2013
  - Section 143 of Companies Act, 2013
  - sub-sections (2) to (5) of section 147 of Companies Act, 2013
- (iv) 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:
- ₹ 25.00 crores
  - ₹ 35.00 crores
  - ₹ 50.00 crores or more
  - None of the above
- (v) A shoe manufacturing company has a plant capacity of producing 700 shoes per shift. During the year of 300 working days, 3 shifts of 8 hours with half-hour recess per shift, it produces 35.91 lakh shoes. The Normal Capacity Utilization percentage is:



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- a. 82%
- b. 76%
- c. 74%
- d. 78%

**(vi)** Remuneration of Non-Executive Director is treated as:

- a. Employee Costs
- b. Administrative Overhead
- c. Non-Cost item
- d. Selling and Distribution Overhead

**(vii)** Item appearing only in Cost Records is:

- a. Profit on Sale of Assets
- b. Interest Received
- c. Loss on Sale of Assets
- d. Notional Interest on Capital

**(viii)** CAS 21 deals with:

- a. Cost of Service Cost centre
- b. Quality control
- c. Capacity determination
- d. Cost Classification

**(ix)** Which one of the following KPI is used to measure productivity & efficiency of a machinery?

- a. % of Idle time to total available time
- b. Machine downtime ratio
- c. Production per man hour
- d. Contribution per unit of material used

**(x)** Which of these reports is written before starting a new project?

- a. Feasibility report
- b. Periodic report
- c. Trouble report
- d. Progress report

**(xi)** Parallel runs are used:

- a. During regular operation of an information system.



## COST AND MANAGEMENT AUDIT

- b. When a system is initially implemented  
c. Whenever errors are found in a computerized system  
d. Whenever management insists
- (xii) Which of the following is not likely to be a fraud risk factor relating to management characteristics?  
a. Tax evasion  
b. Failure to correct known weakness in internal control system  
c. Adoption of conservative accounting principles  
d. High management turnover
- (xiii) C&AG has right to direct how company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as per section:  
a. 143 of the Companies Act, 2013  
b. 134 of the Companies Act, 2013  
c. 173 of the Companies Act, 2013  
d. 44AB of the Income Tax Act, 1961
- (xiv) As per the study of ACFE, the following category of individuals commit the highest frauds (in monetary terms):  
a. Low-level management  
b. Mid-level management  
c. Senior level management  
d. All of the above
- (xv) "Payment System" as defined under the Prevention of Money Laundering Act, 2002 does include – (i) System enabling credit card operations, debit card operations (ii) smart card operations (iii) money transfer operations  
a. Only (i)  
b. Only (iii)  
c. Only (i) & (iii)  
d. All the above

**Answer:**

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)
a	b	d	c	b	b	d	b	b	a	b	c	a	c	d



SECTION – B

Answer any “5” Questions from Question No. 2 to Question No. 8 in Section “B”. Each Question Carries 14 marks. [5x14= 70]

2. (a) Discuss the objectives of Cost Audit. [7]

**Answer:**

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.

**COST AND MANAGEMENT AUDIT**

Socials Objectives:

- Verifying whether the pricing of the products is 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.
- (b) Classify the information which are required to be given in the Form CRA - 2 for intimation of appointment of Cost Auditor by the company to Central Government.

[7]

**Answer:**

The following information are required to be given in the Form CRA - 2 for intimation of appointment of Cost Auditor by the company to Central Government:

- (1) Corporate Identity Number (CIN) or Foreign Company Registration Number (FCRN) of the company
  - (2) General Information
  - (3) Product(s)/Service(s) to which Cost Audit relates
  - (4) Details of all the Cost Auditor(s) appointed
  - (5) Financial year to be covered under the Cost Audit
  - (6) Details of previous Cost Auditor which has not been reappointed
  - (7) Attachments
    - Copy of the Board resolution of the company
    - Optional attachment - if any
3. (a) As per Section 141(3), read with Rule 10 of Company (Audit and Auditor) Rule 2014, explain the persons who shall not be eligible for appointment as an auditor of a company.

[7]

**Answer:**

As per Section 141(3), read with Rule 10 of Company (Audit and Auditor) Rule 2014, the following persons shall not be eligible for appointment as an auditor of a company:

- (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;

**COST AND MANAGEMENT AUDIT**

- (b) an officer or employee of the company;
- (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
- (d) a person who, or his relative or partner:
  - (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, of face value not exceeding rupees one lakh;
  - (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh;
  - (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees one lakh;
- (e) 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 of such nature as may be prescribed;
- (f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;
- (g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
- (h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
- (i) a person who, directly or indirectly, renders any service referred to in Section 144 to the company or its holding company or its subsidiary company.

Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor [Section 141(4)].

- (b) Mention the steps are to be followed to file the reports in XBRL Format. [7]

**Answer:**

The following steps are to be followed in sequence to file the reports in XBRL Format:



## COST AND MANAGEMENT AUDIT

- (i) Mapping the individual cost elements of the company to the elements of the costing taxonomy.
- (ii) Populating the relevant data in the software/filing tool.
- (iii) Creating an XBRL instance document.
- (iv) Download XBRL validation tool.
- (v) Validating the instance document with the validation tool of MCA.
- (vi) Pre-scrutiny of the instance document.
- (vii) Use available tool to convert the instance document to a human readable pdf format and check correctness of data.
- (viii) Attaching the instance document to the e-Form and filing on MCA portal.
4. (a) Purchase of Materials \$ 50,000 [Forward contract rate \$ = ₹64.40 but \$ = ₹64.60 on the date of importation]; Import Duty paid ₹5,65,000; Freight inward ₹1,62,000; Insurance paid for import by road ₹48,000; Cash discount ₹33,000; Payment made to the foreign vendor after a month, on that date the rate of exchange was \$ = ₹65.20. Compute the landed cost of material. [7]

**Answer:**

**Computation of Landed Cost of Material**

	<b>Particulars</b>	<b>Amount (₹)</b>
	Purchase price of Material [50,000 × 64.60]	32,30,000
Add	Import duties of purchasing the material	5,65,000
Add	Freight Inward during the procurement of material	1,62,000
Add	Insurance paid	48,000
	Value of Receipt of Material	40,05,000

- (i) Excess payment made to the vendor due to exchange fluctuation is not an includible cost, hence not considered.
- (ii) Though the forward contract rate was \$ = ₹64.40, but the exchange rate on the date of importation is considered. Hence, included in the cost of materials. Accordingly, the purchase cost is computed considering the \$ = ₹64.60.



## COST AND MANAGEMENT AUDIT

- (b) GLORY LTD., a manufacturing company provides the following extracts from its Cost Accounting Records for the year ended March 31, 2023:

The total capacity for 5 Machines per hour as per the company's specification.	2500 Units
No. of shifts (each shift of 8 hours) per day	3
Paid holidays in a year (365 days):	
(i) Weekly holidays	52
(ii) Other holidays	10
Annual maintenance is done within these holidays (i.e. 10)	
Preventive maintenance for the machines is carried on during weekly off day.	
Normal idle capacity due to lunchtime, shift changes etc. per shift	0.5 hour
Production based on sales expectancy in past 3 years (units in lakh):	154.50
	159.54
	166.66
Actual production for the year ended March 31, 2023:	158.80

You are required to calculate:

- (1) Installed Capacity
- (2) Practical Capacity
- (3) Actual Capacity (%)
- (4) Normal Capacity
- (5) Idle Capacity (%)
- (6) Abnormal Capacity — Keeping in view of the relevant Cost Accounting Standard (CAS-2). [7]

**Answer:**

GLORY LTD.

CALCULATION OF DIFFERENT CAPACITIES FOR THE COMPANY

(1)	Installed Capacity : $365 \times 8 \times 3 \times 2500 = 21900000$ i.e. 219 lakh units
(2)	Practical capacity: $(365 - 52 - 10) \times (8 - 0.5) \times 3 \times 2500 = 17043750$ i.e. 170.4375 lakh units
(3)	Actual capacity (given) = 158.80 lakhs units
	Actual capacity utilization: $(158.80/219) \times 100 = 72.51\%$
(4)	Normal Capacity: $(154.50 + 159.54 + 166.66)/3 = 160.23$ lakh units
(5)	Idle capacity: $(219 - 158.80) = 60.20$ lakh unit i.e. $(60.20/219) = 27.49\%$
(6)	Abnormal Idle capacity: $(170.4375 - 158.80) = 11.6375$ lakh units i.e. $(11.6375/170.4375) = 6.83\%$ .



## COST AND MANAGEMENT AUDIT

5. (a) In the Financial Accounts of Chemicals & Fertilizers Ltd. for the year ended March 31, 2023 the profit was ₹ 8,98,07,500. 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	
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, 2023. [7]

**Answer:**

Chemicals & Fertilizers Ltd.

Reconciliation of financial profit and costing profit for the year ended March 31, 2023

Amount in ₹ thousand

Profit or loss as per Financial Accounts		8,9807.50
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)	<u>17</u>	(1,387.00)



## COST AND MANAGEMENT AUDIT

B. Add: Expenses not considered in Cost Accounts		
i. Expenses on CSR	56	
ii. Post-retirement medical grant	<u>584</u>	640.00
C. Less: Difference in Valuation of stock between Financial Accounts and Cost Accounts (9,660-6,070) (workings)		(3,590.00)
Profit as per Cost Accounts		85,470.50

Workings:

Current Year (2022-23)

(Amount in ₹ thousand)

	Financial Accounts	Cost Accounts
Opening Semi finished	31,700	35,210
Finished	83,220	78,590
Total	1,14,920	1,13,800
Closing semi finished	35,260	39,420
Finished	89,320	80,450
Total	1,24,580	1,19,870
Variation in inventory	9,660	6,070

Increase in Difference of stock valuation towards financial accounts = ₹3,590

- (b) Discuss about the Investigation Methodology of Forensic Audit. [7]

**Answer:**

The forensic audit investigation is the utilization of specialized investigation skills to conduct the forensic audit engagements in such a manner that the outcome can be presented in a court of law as evidence. The auditor should use an approach considering both the aspects of whether the fraud could have occurred and whether the fraud could not have occurred. With this approach, the forensic auditors will be able to bring the reality closer to the general, public especially the circumstances where perception and reality are not aligned. An auditor can follow a nine-step method for fact-finding in case of forensic audit engagements:

- (i) Accept the forensic audit engagement.
- (ii) Evaluate the allegations or suspicions.
- (iii) Conduct due diligence background notes.



## COST AND MANAGEMENT AUDIT

- (iv) Complete the preliminary stage of the investigation.
- (v) Check the prediction assuming that there will be litigation.
- (vi) Begin with an external investigation.
- (vii) Gathering the required proofs and evidence.
- (viii) Preparing report on findings; and
- (ix) Court proceedings.

6. (a) Describe the features of Environmental Audit. [7]

**Answer:**

The following are the features of Environmental Audit:

- (i) **Role of Management:** Environmental audit performed through Internal Audit Team is generally considered as part of the internal control system and is mainly used to assess, evaluate and manage the environmental performance of a company including compliance against various legislations.
- (ii) **Environmental Impact Assessment (EIA):** EIA is a tool used to predict, evaluate and analyze environmental impacts w.r.t upcoming Projects, mostly before a project commences, expansion plans etc. Whereas environmental audit looks at environmental performance for an existing operation or activity with impact assessment on account of non-conformity.
- (iii) **Systematic:** Audit is a systematic carefully planned, structured, and organized end to end process to ensure adequacy and result orientation for the environmental concerns.
- (iv) **Documentation:** Like any other audit, the base of any environmental audit findings also needs to be backed-up and supported by proper documents and verifiable information. Management needs to ensure appropriate methods for environment related data collection and preservation, so that same can be perused for review and/or future reference purposes.
- (v) **Continuous Review:** Monitoring of environmental performance against regulations and/or benchmarking the same is a continuous process. Regular collection of actual measurement datum and review, finding out 'root cause' for deviations from norms set can help in timely intervention and taking steps.
- (vi) **Objective Evaluation:** Other than environmental performance and compliance against specific regulatory matters, at times accreditation, certification, taking part in environmental survey etc. also comes up with enhanced objectivity.



## COST AND MANAGEMENT AUDIT

(vii) **Environmental Performance:** The essence of any environmental audit is to find out how well the environmental management function performance in creating favourable impact and achieving organisational goal for environmental balance.

(b) Discuss about the necessity of Management Audit. [7]

**Answer:**

Management Audit has become necessary on account of the following reasons:

- (i) Management audit examines whether appropriate policies are laid down by the company management and the same being adhered through spirit and action.
- (ii) It helps in the improvement of the performance of management as a Team.
- (iii) Management audit suggests eliminating wastage and/or achievement of maximum with minimum.
- (iv) Independent appraisal of performance.
- (v) SWOT (Strength, Weakness, Opportunity and Threats) are analyzed for timely management intervention.
- (vi) Review of effectiveness w.r.t decision making process.
- (vii) Ensure good governance practice in every sphere of managerial activities.

7. (a) ABC Co. has planned for an investment of ₹800.00 lakh with a 50% Loan from Banks at 10% interest.

Direct Cost for the year ₹480.0 lakhs and 50% of which is Material cost. Other expenses are at ₹ 80.0 lakh. The goods will be sold at 150% of the direct cost. The tax rate is assumed at 50%.

Determine:

- (i) Net profit margin
- (ii) Return on Assets
- (iii) Assets turnover
- (iv) Return on owners' equity
- (v) Inventory Turnover

[7]



## COST AND MANAGEMENT AUDIT

**Answer:**

Particulars	₹ Lakhs / %
Sales: $480 \times 1.5$	720
Direct Cost	480
Gross Profit	240
Operating Exp + interest	120
Profit before Tax	120
Net profit after Tax	60
(i) Net Profit Margin $(60/720)$	8.33%
(ii) Return on Assets $(60/800)$	7.5%
(iii) Return on Equity $(60/400)$	15%
(iv) Asset Turnover $(720/800)$	0.9
(v) Inventory Turnover $(240/720) \times 100$	33.33%

- (b) Align the strategies for Manpower Planning. [7]

**Answer:****Strategies for manpower planning are as follows:**

- (i) Collection, maintenance, and interpretation of relevant information regarding human resources.
- (ii) Periodical review of manpower objectives and requirements.
- (iii) Development of procedures and techniques to determine the requirements of different types of manpower over some time.
- (iv) Development of measures for the utilisation of manpower along with independent validation, if possible.
- (v) Employment of suitable techniques for the effective allocation of work to improve manpower utilization properly.
- (vi) Conducting surveys for determining the factors hampering the contribution of individuals as well as of the groups in the organisation for modifying or removing those handicaps.
- (vii) Development and employment of methods of economic assessment of human resources, reflecting its features as an income generator and cost.

**COST AND MANAGEMENT AUDIT**

- (viii) Evaluation of the procurement, promotion, retention, etc., of the effective manpower resources about the forecast of manpower requirements of the organisation.
- (ix) Analysis and controlling of organisational processes and structure for encouraging maximum individual and group performance without incurring excessive costs.

8. (a) Distinguish between Internal Audit and Operational Audit. [7]

**Answer:**

<b>Internal Audit</b>	<b>Operational Audit</b>
1. Compliance objective	Risk identification, process improvement objective
2. Financial accounts focus	Business focus
3. Audit focus	Efficiency & improvement focus
4. Transaction-based	Process-based
5. Policies and procedures focus	Risk management focus
6. Cost Centre wise budget monitoring	Accountability for performance improvement results
7. Methodology: Focus on policies, transactions and compliance	Methodology: Focus on goals, strategies and risk management processes

(b) Identify the points which are to be considered necessary for conducting audit of Hospital. [7]

**Answer:**

The following points are to be considered necessary for conducting an audit of Hospital:

- (i) Check the letter of appointment to ascertain the scope of responsibilities.
- (ii) Ownership and control of the institution.
- (iii) Process (e.g., admission, release, outdoor check-up, pathology and other test facilities, Operation Theatre facility, vaccination etc.) and related controls till revenue generation. Normally facilities not provided for other than cash terms.



**COST AND MANAGEMENT AUDIT**

- (iv) Donation, Special Grant, Interest and/ or dividend income etc. to be validated through necessary supporting documents, should be vouched with reference to the Investment Register and Interest and Dividend warrants.
- (v) Ensure purposive donations, grants etc. spent for the particular purpose only.
- (vi) Clear distinction should be made between the items of capital and revenue nature.
- (vii) Adherence to Standard Operating procedure w.r.t Expenses (Capex and Opex)
- (viii) Verify the system of internal check as regards purchases and issue of stores, medicines, medical equipment etc.
- (ix) Examine that the appointment of the staff, visiting specialist doctors, payment of salaries etc. for expenditure booking validation.
- (x) Physically verify the investments, fixed assets and inventories.
- (xi) Check appropriateness of capitalization and depreciation rates charged and value in Books.



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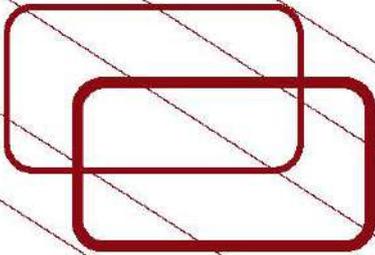
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# PAPER - 19

# MCQs

BIT QUESTIONS

## Cost and Management Audit



DIRECTORATE OF STUDIES  
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COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

Behind every successful business decision, there is always a **CMA**

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**Vijayawada Chapter of  
The Institute of Cost Accountants of India**



**PAPER -19**  
**Cost and Management Audit**  
**Bit Questions**

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**Choose the most appropriate answer giving justification.**

1. Part C of the Annexure to the Cost Audit Report in CRA 3 deals with \_\_\_\_\_.  
 (A) Manufacturing Sector  
 (B) Service Sector  
 (C) Regulated Sector  
 (D) Unregulated Sector
  
2. Cost Accounting Standard 8 is a Cost Accounting Standard on \_\_\_\_\_.  
 (A) Employee Cost  
 (B) Utilities Cost  
 (C) Pollution Control Cost  
 (D) Selling and Distribution Cost
  
3. Under the Generally Accepted Cost Accounting Principles, the cost of cane supplied from own farm to the sugar mill is treated as \_\_\_\_\_.  
 (A) Direct Materials Cost  
 (B) Indirect Materials Cost  
 (C) Production Overhead  
 (D) Administrative Overhead
  
4. Constitution of Audit Committee by the Board of Directors is mandatory for \_\_\_\_\_.  
 (A) all companies  
 (B) all listed companies only  
 (C) all listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only  
 (D) all public companies having turnover of ₹100 crore or more only
  
5. Cost Auditing Standard 102 deals with \_\_\_\_\_.  
 (A) planning an Audit of Cost Statements  
 (B) Cost Audit Documentation  
 (C) knowledge of process and business  
 (D) overall objectives of the Independent Cost Auditor
  
6. As per the Central Excise Valuation Rules 2000, the assessable value of goods used for captive consumption is \_\_\_\_\_.  
 (A) at actual cost of production of such goods  
 (B) at marginal cost of production of such goods  
 (C) at 110% of cost of production of such goods  
 (D) at market price of such goods
  
7. A shoe manufacturing company has a plant capacity of producing 700 shoes per shift. During the year of 300 working days, 3 shifts of 8 hours with half-hour recess per shift, it produces 35.91 lakh shoes. The Normal Capacity Utilization percentage is \_\_\_\_\_.  
 (A) 82%  
 (B) 76%  
 (C) 74%  
 (D) 78%
  
8. Propriety Audit in the context of Government Audit seeks to ensure that \_\_\_\_\_.  
 (A) public money are not spent for the benefit of a particular person  
 (B) public officer should exercise same vigilance as in respect of expenditure of his/her own money

- (C) no authority should pass an order which will be directly or indirectly to its own advantage  
 (D) All the above
9. The Cost Accounting Standard 15 is a Cost Accounting Standard on \_\_\_\_\_.  
 (A) Employee Cost  
 (B) Utilities Cost  
 (C) Pollution Control Cost  
 (D) Selling and Distribution Overheads Cost
10. Overall Objectives of the independent Cost Auditor and conduct of an Audit in accordance with Cost Auditing Standard is dealt in \_\_\_\_\_.  
 (A) Cost Auditing Standard 101  
 (B) Cost Auditing Standard 102  
 (C) Cost Auditing Standard 103  
 (D) Cost Auditing Standard 104
11. 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 (Eng., Procurement, Constn.) contract
12. A manufacturing unit showed, during the Financial Year 2016-17, the following financial data (in ₹lakh): Net Sales 1,250, Export Incentives 85, Other income 106, Adj. of Finished Stock (+) 95, Materials 634, Salaries 425, Overheads 101.8, and Tax 52.6. The Value Added as per Rules is (in ₹lakh) \_\_\_\_\_.  
 (A) 946  
 (B) 796  
 (C) 755  
 (D) 688
13. Royalty paid on production ₹35,000, Job Charges ₹20,000, Special Design Charges ₹ 20,000, Software Development Charges related to Production ₹27,000, and Travelling abroad for Training ₹25,000 The Direct Expenses as per CAS 10 is ₹ \_\_\_\_\_.  
 (A) 92,000  
 (B) 1,00,000  
 (C) 1,02,000  
 (D) 1,27,000
14. Operational Audit can lead to better management with the focus on \_\_\_\_\_.  
 (A) Transaction-based analysis for Fraud Prevention  
 (B) Compliance of Rules  
 (C) Risk Identification, Process Improvement  
 (D) Budget Monitoring
15. Penalty paid to PF authorities is \_\_\_\_\_ in Employee Cost.  
 (A) included  
 (B) excluded  
 (C) based on individual case  
 (D) partly included
16. Item appearing only in Cost Records is \_\_\_\_\_.  
 (A) Profit on Sale of Assets  
 (B) Interest Received

- (C) Loss on Sale of Assets  
(D) Notional Interest on Capital
17. \_\_\_\_\_ Analysis is evaluation of every resources declared in the industry.  
(A) Capacity  
(B) Energy  
(C) Productivity  
(D) Efficiency
18. Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the Second Schedule of The CWA Act, 1959?  
(A) He/she fails to invite attention to any material departure from the generally accepted procedure of costing and pricing applicable to the circumstances  
(B) He/she does not exercise due diligence or is grossly negligent in the conduct of his/her professional duties  
(C) He/she fails to report a material misstatement known to him/her to appear in a cost or pricing statement with which he/she is concerned in a professional capacity  
(D) In the opinion of the Council, he/she brings disrepute to the Profession or the Institute as a result of his/her action whether or not related to his/her professional work
19. In which CRA Form, is the Cost Audit Report of a company filed with the Central Government?  
(A) CRA-4  
(B) CRA-3  
(C) CRA-1  
(D) CRA-2
20. CAS 23 deals with .....  
(A) Quality Control  
(B) Manufacturing Cost  
(C) Overburden Removal Cost  
(D) Treatment of Revenue in Cost Statements
21. As per the Cost Auditing Standard 101, the risk of Material Misstatements has two components, viz., .....  
(A) Inherent Risk and Control Risk  
(B) Detection Risk and Audit Risk  
(C) Material Risk and Implicit Risk  
(D) Financial Risk and Explicit Risk
22. As per Part D, Para 4 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on  
(A) Audited Financial Data  
(B) Cost Record Data  
(C) Unaudited Financial Data  
(D) Both (A) and (B)
23. The audit of data or information, depicting social performance of a business in contrast to its normal economic performance as measured in financial audit, is  
(A) Energy Audit  
(B) Efficiency Audit  
(C) Social Audit

- (D) Propriety Audit
24. Which of the following is not a Professional Misconduct as per the First Schedule of The CWA Act, 1959, in relation to the Cost Accountants in Practice?
- (A) Pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his/her professional work, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner
  - (B) Enters into a partnership, in or outside India, with any person other than a Cost Accountant in Practice or such other person who is a member of any other professional body having such qualifications as may be prescribed
  - (C) Advertises his/her professional attainments or services or uses any designation or expression other than Cost Accountant on professional documents, visiting cards, letter heads or sign boards, unless it is a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of The ICAI or any other institution that has been recognised by the Central Government or may be recognised by the Council
  - (D) Expresses his/her opinion on cost or pricing statements of any business or enterprise in which, he/she, his/her firm or a partner in his/her firm has substantial interest
25. Remuneration of the Non-Executive Directors is treated as .....
- (A) Employee Costs
  - (B) Administrative Overheads
  - (C) Salaries and Wages
  - (D) Management Expenses
26. As per the CAS 23, the activity of Overburden Removal that benefits the identified component of an ore to be mined by the entity is called as .....
- (A) Mining Activity
  - (B) Overburden Removal
  - (C) Stripping Activity
  - (D) Advance Stripping
27. Cost Information \_\_\_\_\_ the organization to structure the cost, understand it and use it for communicating with the stakeholders.
- (A) Enables
  - (B) Disables
  - (C) Useful
  - (D) None of these
28. Costing is an important tool in \_\_\_\_\_ organizational performance in terms of shareholder and stakeholder value.
- (A) Determining
  - (B) Calculating
  - (C) Assessing
  - (D) None of these
29. Costing includes product, process, and resource-related information covering the \_\_\_\_\_ of the organization and its value chain.
- (A) Performance
  - (B) Ability
  - (C) Consistency
  - (D) Functions

30. Cost Records are maintained on \_\_\_\_\_ basis.  
(A) Accrual  
(B) Cash  
(C) Actual  
(D) None of these
31. Cost Audit represents true and fair view of the \_\_\_\_\_ of any product.  
(A) Cost of sale  
(B) Cost of raw material consumption  
(C) Cost of production  
(D) None of these
32. Cost Audit \_\_\_\_\_ conducted by a Chartered Accountant.  
(A) May be  
(B) Can be  
(C) Cannot be  
(D) May not be
33. The Cost Auditor appointed has to render the cost audit report to the board of directors of the Company, as per the specified time limit, in Form \_\_\_\_\_.  
(A) CRA-3  
(B) CRA - 1  
(C) XBRL  
(D) CRA - 2
34. The cost records are to be maintained as specified in:  
(A) CRA3  
(B) CRA1  
(C) CRA 4  
(D) CRA 2
35. 'Sugar and Industrial Alcohol' belong to \_\_\_\_\_ sector for the purpose of Application of Cost Records.  
(A) Regulated  
(B) Non-Regulated  
(C) Both depending on circumstances  
(D) None of above
36. Cost Audit was initially introduced in the year \_\_\_\_\_.  
(A) 1959  
(B) 1965  
(C) 1949  
(D) 1975
37. The Central Govt. released the CCRA - Rules, 2014 in pursuance to the powers vested with it U/s ----- of the Companies Act, 2013  
(A) Section 469  
(B) Section 148  
(C) Section 465  
(D) Section 469 and 148
38. The CCRA - Rules, 2014 supersedes  
(A) Companies (Cost Accounting Records) Rules, 2011  
(B) Companies (Cost Audit Report) Rules, 2011  
(C) Cost Accounting Records (Telecommunication Industry) Rules, 2011  
(D) All the above

39. The provisions related to maintenance of cost records were introduced in the year ---  
----- by amendment to the companies act, 1956.  
(A) 1960  
(B) 1965  
(C) 1966  
(D) 1970
40. The CCRA – Rules, 2014 is not applicable to  
(A) MSME  
(B) Export oriented units  
(C) Private limited companies  
(D) Units operating from SEZ
41. The cost audit report under CCRA – Rules, 2014 is to be submitted in -----  
(A) Form – 3  
(B) Form – 4  
(C) Form – 1  
(D) Form – 2
42. The cost audit report under CCRA – Rules, 2014 is to be filed as an attachment to -----  
-----  
(A) Form – 3  
(B) Form – 4  
(C) Form – 2  
(D) None of the above
43. Which one of the below is not a regulated industry  
(A) Fertilizers  
(B) Aluminium  
(C) Sugar  
(D) Petroleum products
44. The turnover criteria for applicability of CCRA – Rules, 2014 is  
(A) At the end of immediately preceding financial year  
(B) At the end of the financial year  
(C) Average of 3 preceding financial year  
(D) When the company achieves the turnover during the current financial year
45. The cost auditor to be appointed within ----- days of the beginning of the financial year.  
(A) 90 days  
(B) 180 days  
(C) 6 months  
(D) 270 days
46. CCRA – Rules, 2014 is applicable from the financial year commencing on or after  
(A) 01.01.2014  
(B) 01.04.2014  
(C) 01.07.2014  
(D) 01.04.2015
47. Which Para in covered in Part D to the Annexures to Cost audit report.  
(A) Profit Reconciliation  
(B) Value addition and distribution of profit  
(C) Reconciliation of Indirect taxes

- (D) Abridge Cost Statement
48. CAS 11 deals with:  
(A) Administrative Overhead  
(B) Factory Overhead  
(C) Selling & Distribution Overhead  
(D) Financial Cost
49. CAS 5 deals with \_\_\_\_\_  
(A) Equalized cost of transportation  
(B) Captive consumption  
(C) Capacity determination  
(D) Cost classification
50. The foreign exchange component of imported material is converted at the rate on –  
(A) Date of Payment  
(B) Date of Delivery  
(C) Date of Transaction  
(D) Date of Use
51. Variances due to abnormal reasons ----- form part of cost as per GACAP.  
(A) Will Not  
(B) Is  
(C) Are  
(D) Will
52. As per CAS 2 Actual Capacity utilization shall be presented as a percentage of \_\_\_\_\_ capacity.  
(A) Installed Capacity  
(B) Practical Capacity  
(C) Abnormal Loss (%)  
(D) Actual Production
53. CAS-20 deals with \_\_\_\_\_  
(A) Royalty and Technical Knowhow fee  
(B) Material Cost  
(C) Research & Development Cost  
(D) Financial Cost
54. The objective of CAS – 101 is to \_\_\_\_\_.  
(A) Prepare cost records  
(B) Prepare cost audit documentation  
(C) Guide the members to make planning for the audit of cost statement  
(D) Enable the cost auditor to have knowledge of the clients business
55. The procedures followed by the cost auditor to reduce the audit risk to an acceptable level will not detect a misstatement that exists and that could be material is \_\_\_\_\_.  
(A) Inherent risk  
(B) Detection risk  
(C) Control risk  
(D). None of these
56. Cost auditing standard deals with \_\_\_\_\_.  
(A) Auditors responsibility  
(B) Auditors power

- (C) Auditors right  
(D) Auditors flexibility
57. Cost auditing standards preface to the standards on \_\_\_\_\_.  
(A) Quality control  
(B) Planning  
(C) Development  
(D) None of these
58. Cost auditing standards preface to the standards on auditing, quality control review and related services rendered by the cost accountant has been issued by \_\_\_\_\_.  
(A) ICAI  
(B) ICMAI  
(C) CAASB  
(D) ICWAI
59. CAS \_\_\_\_\_ ensures the achievement of audit objectives with available resources and securing coordination with the auditee on audit work.  
(A) CAS – 102  
(B) CAS –104  
(C) CAS – 103  
(D) CAS- 101
60. CAS 104 enables the cost auditor \_\_\_\_\_.  
(A) To have knowledge of the clients business  
(B) Overall objectives of the cost auditor and the conduct of an audit  
(C) Guide the members to prepare cost audit documentation  
(D) Making plan for audit of cost statement
61. Requirements of CAS – 104, the cost auditor shall \_\_\_\_\_.  
(A) Comply with the relevant ethical requirements  
(B) Have adequate level of understanding of the knowledge of business  
(C) Prepare audit documentation  
(D) None of these
62. The cost auditing standards deal with the \_\_\_\_\_ of the cost auditor.  
(A) Efficiency  
(B) Effectiveness  
(C) Qualifications  
(D) Responsibility
63. The cost auditor is \_\_\_\_\_ for forming and expressing an opinion on the cost statements.  
(A) Responsible  
(B) Reasonable  
(C) Irresponsible  
(D) Assessing
64. Which one of the following KPI is used to measure productivity & efficiency a machinery  
(A) % of Idle time to total available time  
(B) Machine downtime ratio  
(C) Cost per of Break-Down Hour  
(D) Contribution per unit of material used
65. KPI can be classified in \_\_\_\_\_ following Category.

- (A) Quantitative & Qualitative
  - (B) Actionable
  - (C) Trending
  - (D) All of the above
66. Which one of the following is covered under performance analysis report
- (A) Cost per unit of material used
  - (B) Cost of utilities
  - (C) Impact of IFRS on the Cost Structure
  - (D) Impact of CAS and GACAP
67. The basic objective to prepare report on performance analysis is/are as under
- (A) to improve profits and profitability
  - (B) to optimize resource allocation
  - (C) to optimize the product and services portfolio
  - (D) All of the above
68. Performance Prism is basically used for the purpose of \_\_\_\_\_
- (A) Cost Reduction
  - (B) Cost Control
  - (C) Total performance management
  - (D) None of the above
69. Kaizen Costing & Lean Manufacturing (Management Accounting Tool) are used as \_\_\_\_\_
- (A) Cost Reduction Tool
  - (B) Cost Computation Tool
  - (C) Performance Measure Tool
  - (D) Control Tool
70. Management audit is the unique process of \_\_\_\_\_ the performance of directors, managers or the performance of Management.
- (A) Appraising
  - (B) Calculating
  - (C) Auditing
  - (D) Planning
71. Management audit is normally presumed to be a \_\_\_\_\_ into a performance of a manager or group of managers.
- (A) Routine investigation
  - (B) Non-routine investigation
  - (C) Auditing
  - (D) None of these
72. The main objectives of management audit is to \_\_\_\_\_.
- (A) Suggest improvement in methods of operations
  - (B) Framing basic policies for the organization
  - (C) Setting up an organizational framework
  - (D) None of these
73. Management audit \_\_\_\_\_ on financial matters.
- (A) Involves
  - (B) Only concentrate
  - (C) Does not concentrate
  - (D) None of these

74. The main emphasis of Management Audit is:  
(A) Problem solving  
(B) Problem identification  
(C) Problem definition  
(D) Problem avoidance
75. Efficiency Audit ensures \_\_\_\_\_ return on Capital Employed  
(A) optimum  
(B) maximum  
(C) minimum  
(D) average
76. There are no fixed items of evidence to be checked by Management Auditor  
(A) The statement is true  
(B) The statement is false  
(C) The statement is partly true  
(D) The statement is partly false
77. Consumer Service Audit is part of \_\_\_\_\_  
(A) Business Activity Audit  
(B) Social Audit  
(C) Service Audit  
(D) None of Above
78. Management Audit Report Submitted to:  
(A) Cost Audit Branch  
(B) Audit Committee  
(C) Central Government  
(D) Management of Concern
79. There are no fixed items of evidence to be checked by Management Auditor. A Management Auditor has to rely more on \_\_\_\_\_  
(A) his experience and acumen  
(B) Auditors Working Paper  
(C) Physical Verification Sheet  
(D) Information Provided by Management
80. Assurance engagements involve \_\_\_\_\_  
(A) Only Individual Parties  
(B) Three separate parties  
(C) Contractor and Contractee  
(D) None of them
81. Zero base budget (ZBB) system was modeled by \_\_\_\_\_  
(A) Peter A Woodcock  
(B) Peter A Phyrh  
(C) P F Ducker  
(D) None of them
82. Important point in Corporate planning is \_\_\_\_\_  
(A) Time and Work Study  
(B) Imposing Control System  
(C) Forecasting and goal setting  
(D) SWOT analysis.
83. Who is the developer of Management Audit

- (A) T. G. Rose
  - (B) T. G. Tailors
  - (C) M. C. Sukla
  - (D) None of them
84. Internal control system can be comprised of
- (A) Preventive Control
  - (B) Detective Control
  - (C) Corrective Control
  - (D) All of the above
85. Who can be appointed as Internal Auditor as per the Companies Act, 2013
- (A) A Chartered Accountant
  - (B) A Cost Accountant
  - (C) Such other professional
  - (D) All of the above
86. Which section of Companies Act deals with Internal Audit
- (A) Section 138
  - (B) Section 148
  - (C) Section 139
  - (D) Section 192
87. One of the major components of government audit is/are
- (A) Government Revenue
  - (B) Union Budget and Control
  - (C) Government Expenditure
  - (D) Taxation and Fiscal Policies
88. Internal Audit can be performed by
- (A) Employee of the Organization
  - (B) External Agencies
  - (C) Management itself
  - (D) Both (A) and (B)
89. NGO(s) are incorporated under
- (A) Societies Registration Act, 1860
  - (B) India Trust Act, 1882
  - (C) As Section 8 Company
  - (D) All of the above
90. The management auditor shall consider in the evaluation of capacity utilization –
- (A) Method of measuring base machine capacity
  - (B) Capacity measurement is based on “capital output ratio” or sundry other factors
  - (C) Technical terminology like licensed capacity, installed capacity, rated capacity etc should be properly defined
  - (D) All of the above
91. Qualities of good Internal Auditor are/is
- (A) Right Attitude
  - (B) Technical Expertise
  - (C) Communication and other soft skills
  - (D) All of the above
92. An audit of or for a government agency is composed
- (A) Financial compliance

- (B) Economy and efficiency
  - (C) Program results
  - (D) All of the above
93. Aspects may be taken into consideration for proper inventory control
- (A) Maximum, minimum and reorder level fixation
  - (B) Fixed order quantity system and different replenishment systems
  - (C) Fast moving, slow moving and non-moving analysis etc
  - (D) All of the above
94. Internal Audit is \_\_\_\_\_
- (A) One time activity
  - (B) A continuous activity
  - (C) Half yearly
  - (D) None of above
95. There is no requirement of Audit Working Papers while conducting audit and they only result in loss of time.
- (A) The Statement is Correct
  - (B) The Statement is Incorrect
  - (C) The Statement is Incomplete
  - (D) None
96. Co-operative Auditor has to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society while conducting internal audit as per
- (A) Section 17(3) of the Cooperative Societies Act, 1912
  - (B) Section 17(2) of the Cooperative Societies Act, 1912
  - (C) Section 17(5) of the Cooperative Societies Act, 1912
  - (D) Section 37(2) of the Cooperative Societies Act, 1912
97. Field Balance Sheet Approach to audit can be applied in case of audit of the
- (A) Co-Operative societies
  - (B) Local Body Corporate
  - (C) Self-Help Group
  - (D) Club
98. Under 'propriety audit', the auditors try to bring out what type of expenditure:
- (A) Improper
  - (B) Avoidable
  - (C) In fructuous
  - (D) All of the above
99. \_\_\_\_\_ States about the audit of accounts of Municipalities.
- (A) Article 243Z of the Constitution
  - (B) Article 243J of the Constitution
  - (C) Both (A) and (B)
  - (D) None of the above
100. What is the first step to conduct Hospital Audit?
- (A) Check the letter of appointment
  - (B) Study Trust Deed
  - (C) Examine Records
  - (D) Physical Verification
101. Who appoint the auditor for Government Company?

- (A) Board of Directors
  - (B) Audit Committee
  - (C) C&AG
  - (D) CBDT
102. C&AG has right to direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as per section\_\_\_\_\_
- (A) 44AB of income Tax
  - (B) 143 of the Companies Act, 2013
  - (C) 173 of the Companies Act, 2013
  - (D) 134 of the Companies Act, 2013
103. Financial Administration of Local Bodies includes
- (A) Budgetary Procedure
  - (B) Expenditure Control
  - (C) Accounting System
  - (D) All of the above
104. Non-Governmental Organizations can be incorporated as a company
- (A) Section 25 of the Companies Act, 1956
  - (B) Section 8 of the Companies Act, 2013
  - (C) Section 28 of the Companies Act, 2013
  - (D) None of the above
105. The government also engages in commercial activities and for the purpose it may incorporate \_\_\_\_\_ type of entities.
- (A) Five
  - (B) Three
  - (C) Many
  - (D) Various
106. Which one of the followings in an example of "Profitability Ratio"
- (A) Inventory Turnover Ratio
  - (B) Proprietary Ratio
  - (C) Expenses Ratio
  - (D) Capital Gearing Ratio
107. Which one of the followings in an example of "Solvency Ratio"
- (A) Capital turnover Ratio
  - (B) Debt Equity ratio
  - (C) Debtors Turnover Ratio
  - (D) None of above
108. Which one of the following is not an utilities.
- (A) Steam
  - (B) Water
  - (C) Compressed Air
  - (D) Broadband internet services
109. Cost of Inventory does not include
- (A) Costs of Purchase
  - (B) Costs of Conversion
  - (C) Other Direct Cost
  - (D) Administrative overheads that do not contribute to bringing inventories to their present location and condition

110. Which one of the following costs appeared only in Cost Accounts?  
 (A) Interest on mortgage and loans  
 (B) Notional Interest on Capital  
 (C) Dividend equalization fund, sinking, fund etc  
 (D) Loss due to scrapping of plan and machinery
111. Royalty paid on sales ₹30,000; Royalty paid on units produced ₹20,000, Hire Charges of equipment used for production ₹2,000, Design charges ₹15,000, Software development charges related to production ₹22,000. The Direct Expenses amount is:  
 (A) ₹88000  
 (B) ₹89000  
 (C) ₹99000  
 (D) ₹98000
112. The Balance Sheet of X Ltd As on 31st March 2017 showed the following information:  
 Capital - ₹1500 lacs, Reserves - ₹696 lacs, Loans - ₹600 lacs, Sundry Creditors ₹774 lacs, Total assets - ₹3570 lacs. For the year 16-17, PBT - ₹900 lacs, Provision for tax is ₹360 lacs and proposed dividend is ₹300 lacs. Return on Network is:  
 (A) 30.41 %  
 (B) 29.41 %  
 (C) 28.41 %  
 (D) 27.41%
113. Royalty paid on units produced ₹20,000, Hire Charges of equipment used for production ₹2,000, Design charges ₹15,000, Software development charges related to production ₹22,000. The Direct Expenses is:  
 (A) ₹57000  
 (B) ₹59000  
 (C) ₹37000  
 (D) ₹44000
114. A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is \_\_\_\_\_.  
 (A) 735.27 Kg  
 (B) 725.27 Kg  
 (C) 745.27 Kg  
 (D) 755.27 Kg
115. Gross Sales ₹16500 lacs, Excise Duty ₹1240 lacs, Increase in stock ₹42 lacs, Cost of raw materials ₹6250 lacs, Power ₹2220 lacs, other overheads ₹215 lacs, Value Added is:  
 (A) ₹15260 Lac  
 (B) ₹6617 Lac  
 (C) ₹6533 Lac  
 (D) ₹15302 lac
116. Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 deals with:  
 (A) Application of Cost Records  
 (B) Application of Cost Audit  
 (C) Appointment of Cost Auditor  
 (D) Cost Audit Report
117. Abnormal Loss due to flood or earthquake is charged to:  
 (A) Administrative Overhead Cost  
 (B) Material Cost

- (C) Costing Profit and Loss Account  
(D) Selling and Distribution Cost
118. XBRL is a language based on:  
(A) XBL family of languages  
(B) XRL family of languages  
(C) XML family of languages  
(D) XGL family of languages
119. Part B of the Annexure to Cost Audit Report deals:  
(A) Service Sector  
(B) Manufacturing Sector  
(C) Both manufacturing and service sector  
(D) None of the above
120. CAS 14 deals with:  
(A) Repair and Maintenance Cost  
(B) Pollution Control Cost  
(C) Direct Expenses  
(D) Packing material cost
121. Operating Expense does not include:  
(A) Rent  
(B) Equipment  
(C) Interest  
(D) Payroll
122. Outward transportation cost shall form part of :  
(A) Cost of material  
(B) Cost of Sale  
(C) Packing material  
(D) Administration Overhead
123. Rule 6 of the Companies (Cost Records and Audit) Rules, 2014 deals with:  
(A) Application of Cost Records  
(B) Application of Cost Audit  
(C) Appointment of Cost Auditor  
(D) Cost Audit Report
124. Product and Profitability Statement (For audited products/services) is shown under \_\_\_\_\_ of Annexure to Cost Audit Report.  
(A) Part A  
(B) Part B  
(C) Part C  
(D) Part D
125. Any casual vacancy in the office of a cost auditor, shall be filled by the Board of Directors within \_\_\_\_\_ days of occurrence of such vacancy.  
(A) 180  
(B) 90  
(C) 30  
(D) 60
126. The Companies are required to maintain Cost Records if turnover exceeds \_\_\_\_\_ crores or more during immediately preceding Financial Year in respect of the products and services specified

- (A) ₹25
  - (B) ₹30
  - (C) ₹35
  - (D) ₹10
127. Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the First Schedule of The CWA Act, 1959?
- (A) discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client, or otherwise than as required by any law for the time being in force
  - (B) allows any person to practice in his name as a cost accountant unless such person is also a cost accountant in practice and is in partnership with or employed by himself
  - (C) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute
  - (D) secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business
128. CAS 9 deals with
- (A) Direct Material Cost
  - (B) Indirect Material Cost
  - (C) Packing Material Cost
  - (D) Imported Material Cost
129. Operational Audit is a \_\_\_\_\_ Level Management Audit.
- (A) Macro
  - (B) Micro
  - (C) Depends on situation
  - (D) None of the above
130. Exemptions from application of the Rules are provided to Companies whose revenue from exports, in foreign exchange, exceeds \_\_\_\_\_ of total revenue and companies operating from Special Economic Zones.
- (A) 45%
  - (B) 50%
  - (C) 75%
  - (D) 80%
131. In XBRL Format process of determining the elements that correspond to lines and columns in a financial statement and which elements must be created by extension is:
- (A) Mapping
  - (B) Label
  - (C) Hierarchy
  - (D) Scaling
132. 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 one Director of the company
  - (D) The Chief Finance Officer and the Managing Director of the company
133. Cost of self-generation utilities for own consumption shall comprise \_\_\_\_\_.
- (A) Administrative overheads

- (B) Distribution cost  
 (C) Factory overheads  
 (D) None of the above
134. The useful life of an intangible asset, like amount paid on technical knowhow, shall not exceed \_\_\_\_\_ from the date it is available for use.  
 (A) 5 years  
 (B) 8 years  
 (C) 10 years  
 (D) 12 years
135. Cost Audit Documentation is dealt in the \_\_\_\_\_.  
 (A) Cost Auditing Standard 101  
 (B) Cost Auditing Standard 102  
 (C) Cost Auditing Standard 103  
 (D) Cost Auditing Standard 104
136. A member of The ICAI shall be deemed to be guilty of other misconduct, if he/she is held guilty by any civil or criminal court of an offence which is punishable with imprisonment \_\_\_\_\_.  
 (A) For a term exceeding 3 years  
 (B) For a term exceeding 3 months  
 (C) For a term exceeding 6 months  
 (D) For a term exceeding 2 years
137. Costing Taxonomy is best defined as a \_\_\_\_\_.  
 (A) Dictionary  
 (B) Made Easy  
 (C) Tax Ready Reckoner  
 (D) Referencer
138. Which of the following ratios appears as Profitability Ratio in Part D of Annexure to the Cost Audit Report ?  
 (A) Net Profit to Net Sale  
 (B) Value added to Net Sales  
 (C) Profit before Tax to Value Added  
 (D) Net Profit to Share Capital
139. CAS 24 deals with \_\_\_\_\_.  
 (A) Overburden Removal Cost  
 (B) Interest and Financing Charges  
 (C) Royalty and Technical Knowhow Fee  
 (D) Treatment of Revenue in Cost Statements
140. ORS Ltd is a multi-product company having annual turnover of ₹103 crore, Table A items under CARO being ₹26 crore, Table B items ₹8 crore and the rest are not covered in either of the Tables. Cost Audit will be \_\_\_\_\_.  
 (A) not applicable to the company  
 (B) applicable for Table A products only  
 (C) applicable for all products  
 (D) applicable for Table A and Table B products only
141. The wages of employees of contractor engaged in the organization for the past period is \_\_\_\_\_ Employee Cost.  
 (A) included in  
 (B) excluded from

- (C) included to the extent of statutory contribution of employer  
 (D) partly included
142. The figures below are available for Reliable Ltd Budgeted production - 800 units, Standard hours per unit 25, Actual production 576 units and actual working— 12000 hours. What is the Efficiency Ratio?  
 (A) 110%  
 (B) 120%  
 (C) 100%  
 (D) 125%
143. Machinery used in defense, space and atomic energy sector and fulfilling turnover criteria is under  
 (A) regulated sector  
 (B) unregulated sector  
 (C) exempted by different statute  
 (D) not applicable category
144. Cost Auditing Standard 102 deals with \_\_\_\_\_ .  
 (A) knowledge in performing of audit of cost statements, records etc  
 (B) ensuring conduct of audit of cost statements  
 (C) planning on audit of cost statements, records etc  
 (D) documentation of audit of cost statements, records etc
145. The abridged cost statement (CRA 3) need not be separate for  
 (A) each product with separate (CTA) CETA heading  
 (B) each product having separate industry specific expenses  
 (C) each product having different unit of measure  
 (D) self/captive consumption of each product
146. The Management Auditor should evaluate MIS of an organization after \_\_\_\_\_ .  
 (A) studying content, quality and source of information  
 (B) studying flow of information  
 (C) studying correlation of information in decision areas  
 (D) studying all the above
147. The first step in audit of Educational Institutions —  
 (A) Read through the minutes of the meetings of the Managing Committee or Governing Body  
 (B) Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund  
 (C) Verify the annual statement of accounts  
 (D) To examine the Trust Deed or Regulations
148. SHYAN LTD has a machine of productive capacity of 1500 unit per hour. It runs 3 shifts with 1 weekly off and 12 holidays per year, each shift has one hour stoppage due to lunch, change shift etc Maintenance is done in running time. The Normal Capacity of the plant as per CAS-2 will be  
 (A) 131.40 lakh units  
 (B) 94.815 lakh units  
 (C) 108.36 lakh units  
 (D) None of the above
149. 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 2018-19. The Auditor appointed as such shall continue in such capacity upto

- (A) 31.07.2019, on expiry of one year of appointment  
 (B) 30.09.2019, on expiry of six months from close of accounts  
 (C) 30.08.2019, date of submission date of Cost Audit Report  
 (D) 15.09.2019, date of holding of Annual General Meeting of PANTEX LTD
150. Which one of the following KPI (Key Performance Indicator) is used to measure efficiency of manufacturing performance?  
 (A) Production per Machine Hour  
 (B) Operating Cycle of Materials turnover  
 (C) Material as % of Total Cost  
 (D) % of idle time to total available time
151. The consumer service audit critically examines:  
 (A) Outstanding payment of consumers  
 (B) Price consumers are ready to pay for particular product/service  
 (C) An appraise management of business enterprise of responsibility towards consumers  
 (D) Demand of a product by consumers
152. "Related Party" with relation to a party means  
 (A) a Director or his relative  
 (B) a Key Managerial Person or his relative  
 (C) a firm, in which a Director, Manager or his relative is a partner  
 (D) Either or all of the above
153. Once the instance document is successfully validated from the tool, the next step is to  
 (A) download XBRL validation tool  
 (B) pre-scrutinize the validated instance document  
 (C) convert to human readable format and verify correctness of the instance document  
 (D) attach instance document to the Form CRA-4
154. The Bureau of Energy Efficiency is formed under  
 (A) The Electricity Act, 2003  
 (B) The Energy Conservation Act, 2001  
 (C) The Electricity (Supply) Act, 1948  
 (D) The Electricity Regulatory Commission Act, 1998
155. The knowledge of Entity's Internal Control is to be understood by the Cost Auditor as required by  
 (A) Cost Auditing Standard 101  
 (B) Cost Auditing Standard 102  
 (C) Cost Auditing Standard 103  
 (D) Cost Auditing Standard 104
156. Profit Reconciliation of the company as a whole is dealt in  
 (A) Part D para 2 of the Annexure to Cost Audit Report  
 (B) Part C para 1 of the Annexure to Cost Audit Report  
 (C) Form of the Cost Audit Report  
 (D) Part A para 1 of the Annexure to Cost Audit Report
157. The following details relating to MENG LTD are given:

	₹
Royalty paid on Units produced	25,000
Hire charges on Equipment	20,000
Design Charges	18,000

Software Development Charges for Production	22,000
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What will be the Direct Expenses of the Company (as per CAS-10)?

- (A) ₹60,000
- (B) ₹63,000
- (C) ₹65,000
- (D) ₹85,000

Answer:

- (1) **(B) Service Sector**  
Part C of the Annexure to the Cost Audit Report in Form CRA 3 pursuant to the Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014, gives quantitative information and abridged cost statement for services in the Service Sector.
- (2) **(B) Utilities Cost**  
CAS 8 deals with the Cost Accounting Standard on cost of utilities.
- (3) **(A) Direct Material Cost**  
As per the GACAP, Direct Materials Cost includes cost of procurement and freight inwards of the materials.
- (4) **(C) All listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only**  
The Rule covers all listed companies, public companies having capital of ₹10 crore and more, annual turnover of ₹100 crore and more, outstanding deposits, loans and borrowings of ₹50 crore or more.
- (5) **(B) Cost Audit Documentation**  
The Cost Auditing Standard 102 is to provide guidance to the members in the preparation of audit documentation in the context of the audit of cost statements, records and other related documents.
- (6) **(C) at 110% of cost of production of such goods**  
Liability of Excise Duty arises as soon as the goods covered under the Excise Duty are manufactured but the Excise Duty is collected at the time of removal or clearance from the place of manufacture even for captive consumption.
- (7) **(B) 76%**  
Available capacity =  $300 \times (8-0.5) \times 3 \times 700 = 47.25$  lakh units  
Actual Capacity Utilization % =  $35.91/47.25 = 76\%$
- (8) **(D) All the above**  
The objective of Propriety Audit is that public money is not spent for the benefit of a particular person. Public officer should exercise same vigilance as in respect of expenditure of his/her own money and no authority should pass an order which will be directly or indirectly to its own advantage
- (9) **(D) Selling and Distribution Overheads Cost**  
CAS 15 deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements.
- (10) **(C) Cost Auditing Standard 103**  
Cost Auditing Standard 103 deals with the overall objectives of the independent cost auditor, the nature and scope of a cost audit and independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with cost auditing standards. It also explains the requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the cost auditing standards.
- (11) **(C) a company working in a Special Economic Zone**  
As per Rule 4(3) (ii) of the Companies (Cost Records and Audit) Rules 2014 such units would be outside the purview of cost audit.

- (12) **(B) 796**  
(Sales 1250 + Export Incentive 85 + Adj of Finished stock 95) - (Materials 634) = ₹796 Lakh.
- (13) **(D) 1,27,000**  
[direct expenses as per CAS 10 = royalty paid on production + Job charges + Special Design Charges + Software development charges related to production + Travelling abroad for training = ₹ (35,000 + 20,000 + 20,000 + 27,000 + 25,000) = ₹1,27,000 ]
- (14) **(C) Risk Identification, Process Improvement**  
The objective is to assist the organization in performing functions more effectively and economically with focus on efficiency and effectiveness of operations, giving an early warning system for detection of potentially destructive problems.
- (15) **(B) Excluded**  
Penalty paid to PF authorities is not normal cost and hence is excluded as per CAS 7 from employee cost.
- (16) **(D) Notional interest on capital**  
This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.
- (17) **(C) Productivity**  
The Productivity audit is basically an analysis of the productivity of the resources deployed by any organization. It is generally done to generate information about the status of productivity in the organization for the purpose of determining the scale of efficiency and effectiveness of "resource utilization".
- (18) **(D) In the opinion of the Council, he/she brings disrepute to the Profession or the Institute as a result of his/her action whether or not related to his/her professional work.**  
Bringing disrepute to the profession or the institute is not considered a misconduct as per the Second Schedule of the CWA Act 1959. It is a misconduct as per the First Schedule, Part IV of the Act.
- (19) **(A) CRA-4**  
Pursuant to Section 148 (6) of the Companies Act, 2013, and Rule 6 (6) of the Companies (Cost Records and Audit) Rules, 2014, the Cost Audit Report is to be filed in Form CRA-4 with the Central Government.
- (20) **(C) Overburden Removal Cost**  
Cost Accounting Standard (CAS) 23 is issued by the Council of The Institute of Cost Accountants of India on "Overburden Removal Cost". It is applicable from 1st April, 2017.
- (21) **(A) Inherent Risk and Control Risk**  
As per the Cost Auditing Standard (CAS-101) on Planning an Audit of Cost Statements, the risk of material misstatement has two components, viz., Inherent Risk and Control Risk.
- (22) **(A) Audited Financial Data**  
As per part D, para 3 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on Audited Financial Accounts.
- (23) **(C) Social Audit**  
Social Audit is generally defined to be the audit of data or information depicting social performance of a business in contrast to its normal economic performance as measured in financial audit. A lot of research and experimentation have been conducted to devise techniques or models, which can measure the contribution of an enterprise to the Society.
- (24) **(D) Expresses his/her opinion on cost or pricing statements of any business or enterprise in which, he/she, his/her firm or a partner in his/her firm has substantial interest.**  
As per the Second Schedule Part 1 of the Cost and Works Accountants Act, 1959, a Cost Accountant in Practice shall be deemed to be guilty of Professional Misconduct,

if he/she expresses his/her opinion on cost or pricing statements of any business or enterprise in which, he/she, his/her firm or a partner in his/her firm has substantial interest.

All the other options are Professional Misconduct as per the First Schedule of The Cost and Works Accountants Act, 1959 in relation to the Cost Accountants in Practice.

**(25) (B) Administrative Overheads**

As per the Generally Accepted Cost Accounting Principles (GACAP), Remuneration of the non-Executive Directors will not be considered as part of Employee Costs but will be treated as part of Administrative Overheads.

**(26) (C) Stripping Activity**

As per the Cost Accounting Standard on Overburden Removal Cost, the Stripping Activity refers to the activity of overburden removal that benefits the identified component of an ore to be mined by the entity

**(27) (A) Enables**

**(28) (C) Assessing**

**(29) (D) Functions**

**(30) (A) Accrual**

**(31) (C) Cost of production**

**(32) (C) Cannot be**

**(33) (A) CRA-3**

**(34) (B) CRA1**

Pursuant to Rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014.

**(35) (A) Regulated**

As per Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 Table (A)

**(36) (B) 1965**

**(37) (D) Section 469 and 148**

**(38) (D) All the above**

**(39) (B) 1965**

**(40) (A) MSME**

**(41) (A) Form – 3**

**(42) (B) Form – 4**

**(43) (B) Aluminium**

**(44) (A) At the end of immediately preceding financial year**

**(45) (B) 180 days**

**(46) (B) 01.04.2014**

**(47) (D) Abridge Cost Statement**

**(48) (A) Administrative Overhead**

This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

**(49) (A) Equalized cost of transportation**

The objective of the standard is to bring uniformity in the application of principles and methods used in the determination of averaged/ equalized transportation cost.

**(50) (C) Date of Transaction**

This is as per CAS 6 and GACAP

**(51) (A) Will Not**

**(52) (A) Installed Capacity**

**(53) (A) Royalty and Technical Knowhow fee**

**(54) (C) Guide the members to make planning for the audit of cost statement**

**(55) (B) Detection risk**

**(56) (A) Auditors responsibility**

**(57) (A) Quality control**

**(58) (C) CAASB**

**(59) (D) CAS- 101**

**(60) (A) To have knowledge of the clients business**

**(61) (B) Have adequate level of understanding of the knowledge of business**

**(62) (D) Responsibility**

**(63) (A) Responsible**

**(64) (B) Machine downtime ratio**

It is a ratio which indicates the efficiency and productivity of a machine. So, it is a key performance indicator to measure performance of a machine

**(65) (D) All of the above**

The KPIs could be:

(A) Quantitative – these can be financial or non-financial

(B) Qualitative – these are often lead indicators i.e. they influence future performance

(C) Actionable – those which can be influenced by enterprise actions or controllable

(D) Trending – those which need to be assessed over a period of time to observe whether they are improving or not

**(66) (C) Impact of IFRS on the Cost Structure**

The Report on Performance Analysis may include the following.

(i) Manpower Analysis

(ii) Impact of IFRS on the Cost Structure, Cash-Flows and Profitability

(iii) Application of Management Accounting Tools etc

**(67) (D) All of the above**

The basic objective to prepare a Report on Performance Analysis is to provide an actionable insight into costs and profitability for the management in the strategic and operational context. It aims at discovering various drivers of costs and profitability and their impact on the selected performance variables. It would help the organizations:

❖ To improve profits and profitability

❖ To optimize resource allocation

To optimize the product and services portfolio

**(68) (C) Total performance management**

Performance Prism is a management accounting tool which is used to measure total performance of organization.

**(69) (A) Cost Reduction Tool**

**(70) (A) Appraising**

**(71) (B) Non-routine investigation**

**(72) (A) Suggest improvement in methods of operations**

**(73) (C) Does not concentrate**

**(74) (B) Problem identification**

Management Audit pinpoints the areas requiring attention of management, it evaluates the existence of well defined objectives, it seeks to review appraise and evaluate the corporate plans and policies based on certain standards of objectivity.

**(75) (A) optimum**

The main purpose of Efficiency Audit is to ensure —

❖ That every rupee invested in capital or in other fields give optimum returns, and

❖ The balancing investment between different functions and aspects designed to give optimum results.

**(76) (A) The statement is true**

A Management Auditor has to rely more on his experience and acumen to identify areas of review.

**(77) (B) Social Audit**

Consumer Service Audit is an audit of public responsibility of business enterprise in relation to its customers and is a part of social audit. The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services.

**(78) (D) Management of Concern**

Management audit undertakes examination of the effectiveness of management in controlling the total activities of the organization in the accomplishment of the organization objectives.

**(79) (A) his experience and acumen**

A Management Auditor has to rely more on his experience and acumen to identify areas of review. There are no fixed items of evidence to be checked by Management Auditor

**(80) (B) Three separate parties**

The parties are a public accountant in practice, a responsible party and intended users

**(81) (B) Peter (A) Phyrh**

Zero base budget (ZBB) System was modeled by Peter (A) Phyrh

**(82) (D) SWOT analysis**

A SWOT - strengths, weaknesses, opportunities and threats analysis can help identify and understand key issues affecting the business

**(83) (A) T. G. Rose**

T. G. Rose developed the concept of Management Audit as a logical system of evaluating the quality of Management

**(84) (D) All of the above**

Internal control system can be classified in three types Preventive Control, Detective Control and Corrective Control

**(85) (D) All of the above**

AS per Section 138 of the Companies Act , 2013 an internal auditor, shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

**(86) (A) Section 138**

Section 138 of the Companies Act 2013 deals with provisions of Internal Audit

**(87) (C) Government Expenditure**

Audit of Government Expenditure is one of the major components of government audit conducted by the office of C & AG

**(88) (D) Both (A) and (B)**

Internal audit is a management tool performed by employees of the organization or external agencies specially assigned for this purpose

**(89) (D) All of the above**

Non-Governmental Organizations (NGO) are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of Indi(A) NGO's can also be incorporated as a company under section 8 of the Companies Act, 2013

**(90) (D) All of the above**

Yes, the management auditor shall consider the following points in the evaluation and measurement of capacity utilization

**(91) (D) All of the above**

According to 'Technical Guide on Internal Auditing' by The Institute of Cost Accountants of India, Internal Auditor should have following three traits:

- Technical Expertise
- Right Attitude
- Communication and other soft skills.

An Internal Audit team has to have representation from diverse professional fields in order to understand the organization better.

**(92) (D) All of the above**

An audit of or for a government agency is composed of three elements are as under

1. Financial compliance,
2. Economy and efficiency, and
3. Program results.

The typical definition of a financial audit would not include elements 2 and 3. These are operational auditing techniques.

**(93) (D) All of the above**

The following aspects may be taken into consideration for proper inventory control –

1. Maximum, minimum and reorder level fixation
  2. VED analysis
  3. Just-in time (JIT) purchasing
  4. Fast moving, slow moving and non-moving analysis.
- (94) **(B) A continuous activity**  
Internal Audit is a continuous and systematic process of examining and reporting the operations and records of a concern.
- (95) **(B) The Statement is Incorrect**  
Audit working papers are the record of the planning and execution of the audit engagement.  
Auditors retain a set of working papers for each audit engagement for each year.
- (96) **(B) Section 17(2) of the Cooperative Societies Act, 1912**  
Section 17 (2) of the Co-operative Societies Act, 1912 specifically requires the auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society.
- (97) **(C) Self-Help Group**  
Field Balance Sheet Approach to audit can be applied in case of audit of the Self-Help Group. The auditor prepares the Field Balance Sheet for the group, as on the date of the audit, based on the SHG's internal records and then cross checks the correctness of balance sheet items. The primary objective is to ascertain the retained earnings of the SHG.
- (98) **(D) All of the above**  
Under 'propriety audit', the auditors try to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations
- (99) **(A) Article 243Z of the Constitution**  
Article 243J of the Constitution states that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts.  
Article 243Z of the Constitution states about the audit of accounts of Municipalities. The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts
- (100) **(A) Check the letter of appointment**  
Check the letter of appointment to ascertain the scope of responsibilities.
- (101) **(C) C&AG**  
The auditor of a government company is appointed by the C&AG
- (102) **(B) 143 of the Companies Act, 2013**  
The C&AG have powers under section 143 of the Companies Act, 2013 as follows:  
To direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as such
- (103) **(D) All of the above**  
Financial Administration of Local Bodies has three components Budgetary Procedure, Expenditure Control and Accounting System
- (104) **(B) Section 8 of the Companies Act, 2013**  
Non-Governmental Organisations are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of Indi(A) NGO's can also be incorporated as a company under section 8 of the Companies Act, 2013
- (105) **(B) Three**  
The government also engages in commercial activities and for the purpose it may incorporate following types of entities:  
(A) Departmental enterprises engaged in commercial and trading operations.  
(B) Statutory corporations created by specific statues such as LIC, Air India, etc  
(C) Government companies, set up under the Companies Act, 2013
- (106) **(C) Expenses Ratio**

Expenses Ratio is a profitability ratio with respect to sales. It is a ratio of a particular expense to sales.

**(107) (B) Debt Equity ratio**

Debt Equity ratio represent the long term solvency position of an entity. It is a ratio of debt to equity representing ratio of debt in capital structure

**(108) (D) Broadband internet services**

The term 'Utilities' refer to significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.

**(109) (D) Administrative overheads that do not contribute to bringing inventories to their present location and condition**

Costs that are excluded from inventory valuation Certain costs are excluded in valuing inventory are:-

- ❖ Abnormal amounts of wasted materials, labor, or other production costs
- ❖ Storage costs unless they are essential to the production process

Administrative overheads that do not contribute to bringing inventories to their present location and condition etc

**(110) (B) Notional Interest on Capital**

Any Notional Costs are appeared only in cost accounts but not entered in financial accounts as actual outlay has not occurred

**(111) (B) ₹89000**

Direct expenses = Royalty paid on sales + Royalty on unites produced + Hire charges on equipment + Design

Charges + Software development charges = ₹(30000 + 20000 + 2000 + 15000 + 22000) = ₹89000.

**(112) (B) 29.41 %**

Networth = Capital + Reserves - Revaluation reserve (if any) - accumulated losses (if any) - deferred expenditure (if any) - misc expenditure not written off (if any)

Networth = ₹1500 + ₹696 - ₹360 = ₹1836, Total Earning = ₹900 - ₹360 = ₹540

Return on Networth = ₹540 / ₹1836 = 29.41%

**(113) (B) ₹59000**

Direct expenses = Royalty paid on units produced+ Hire Charges of equipment used for production+ Design charges + Software development charges related to production = 20000 + 2000 + 15000 + 22000 = 59000/-

**(114) (B) 725.27 Kg**

Output at Ring Frame

=  $1000 \times (100-92)\% \times (100-94)\% \times (100-96)\% \times (100-96)\% \times (100-91)\%$

= 725.27 kgs

**(115) (B) ₹6617 Lac**

Value Addition = Gross sales less Excise Duty Add Increase in stock less Cost of Raw materials less

Power less Other Overheads = 16500 - 1240 + 42 - 6250 - 2220 - 215 lac = 6617 lac

**(116) (B) Application of Cost Audit**

Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 prescribes the turnover based threshold limits for applicability of Cost Audit.

**(117) (C) Costing Profit and Loss Account**

Rule 5(1) prescribes that any abnormal cost/loss should not be part of Material, Administrative or Selling and Distribution overheads or any other item of cost.

**(118) (C) XML family of languages**

XBRL belongs to Extensible Markup Language family. It has been defined specifically to meet requirements of business and financial information

**(119) (B) Manufacturing Sector**

This is as per Companies(Cost Records and Audit) Rules, 2014

**(120) (B) Pollution Control Cost**

This standard deals with the principles and methods of classification, measurement and assignment of pollution control costs, for determination of Cost of product or service, and the presentation and disclosure in cost statements

- (121) **(C) Interest**  
Operating expenses typically exclude interest expense, nonrecurring items (such as accounting adjustments, legal judgments, or one-time transactions), and other income statement items not directly related to a company's core business operations
- (122) **(B) Cost of Sale**  
This is as per CAS 5
- (123) **(C) Appointment of Cost Auditor**  
According to Rule 6(1) , the category of companies specified in Rule 3 and the thresholds limits laid down in Rule 4, shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.  
Provided that before such appointment is made, the written consent of the cost auditor to such appointment, and a certificate from him or it, as provided in sub-rule (1A), shall be obtained
- (124) **(D) Part D**  
Pursuant to Rule 6(4) of the Companies (Cost Records and Audit ) Rules, 2014
- (125) **(C) 30**  
Pursuant to Rule 6(3A) of the Companies (Cost Records and Audit) Rules, 2014
- (126) **(C) ₹35**  
Pursuant to Rule 3 of the Companies (Cost Records and Audit) Rules, 2014
- (127) **(A) discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client, or otherwise than as required by any law for the time being in force**  
It is a misconduct as per the Second Schedule, Part I of the CWA Act, 1959
- (128) **(C) Packing Material Cost**  
This standard deals with the principles and methods of determining the Packing Material Cost
- (129) **(B) Micro**  
The objective of operational audit is to appraise the effectiveness and efficiency of a division, activity, or operation of the entity in meeting organizational goals
- (130) **(C) 75%**  
The requirement of Cost Audit under these rules shall not apply to companies whose revenue from exports in foreign exchange exceed 75% of total revenue and companies operating in special economic zone
- (131) **(A) Mapping**  
This is as per XBRL glossary. Several technical terms are used, that have specific meanings, in the context of using XBRL
- (132) **(C) The Secretary and one Director of the company**  
Annexure to the Cost Audit Report in CRA 3 shall be approved by the Board of Directors and by signed by the Company Secretary and a Director authorized by the Board before submission to the Auditor for Report
- (133) **(C) Factory overheads**  
As per CAS 8, the cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads
- (134) **(C) 10 years**  
CAS 16 on depreciation and amortization states that useful life of an intangible asset shall not exceed 10 years from the date it is available for use
- (135) **(B) Cost Auditing Standard 102**  
CAS 102 deals with Cost Audit Documentation
- (136) **(C) For a term exceeding 6 months**  
Part III of the Second Schedule to the Cost & Works Accountants of India Act, 1959 finds a member guilty of other misconduct if he/she is held guilty by a court for offences punishable with imprisonment for a term exceeding 6 months
- (137) **(A) Dictionary**

Cost Taxonomy is a Dictionary of all cost elements required in the Cost Audit Report and Compliance Report

- (138) **(C) Profit before Tax to Value Added**  
This is one of the four ratios identified as Profitability Ratios in Part D of Annexure to the Cost Audit Report
- (139) **(D) Treatment of Revenue in Cost Statements**  
Effective from 1st April, 2017, CAS 24 on Treatment of Revenue in Cost Statements has become applicable
- (140) **(B) applicable for Table A products only**  
Rule 4 to Companies (Cost Audit & Records) Rules, 2014 states that if the overall turnover of the company is more than ₹100 crore, only products of Table A will be covered if the sum total of all the products of the company covered under Table A and Table B is more than ₹25 crore but less than ₹35 crore
- (141) **(B) excluded from**  
CAS 7 on Cost Accounting Standard on Employee Cost excludes benefits paid or payable for the services rendered by employees of any contractor engaged in the organization
- (142) **(B) 120%**  
Efficiency Ratio = Actual output (576 units)/ Standard output (12000 hours/25 hours = 480 units); therefore, Efficiency ratio = 576/480 = 1.20 or 120%
- (143) **(B) unregulated sector**  
Machinery used in defense, space and atomic energy sector and fulfilling turnover criteria is under Unregulated sector
- (144) **(D) documentation of audit of cost statements, records etc**  
The purpose of the Cost Auditing Standard 102 is to provide guidance to the members in the preparation of audit documentation in the context of the audit of cost statements, records and other related documents
- (145) **(D) self/captive consumption of each product**  
The abridged cost statement need not be separate for Self/Captive Consumption of each product
- (146) **(D) studying all the above**  
The Management Auditor should evaluate MIS of an organization after studying content, quality and source of information, studying Flow of information, studying correlation of information in decision areas
- (147) **(D) To examine the Trust Deed or Regulations**  
The Trust Deed or Regulation is the basic document on which the composition of the educational institution is framed
- (148) **(B) 94.815 lakh units**  
As per CAS 2, normal capacity is maximum productive capacity reduced by time lost on preventive maintenance, holidays, Set up delays. Here, Normal capacity =  $(365 - 52 - 12) \times (8 - 1) \times 3 \times 1500 = 94.815$  lakh unit
- (149) **(B) 30.09.2019, on expiry of six months from close of accounts**  
As per Rules, 2014, the Cost Auditor, unless removed or resigned from office, shall continue till expiry of 180 days from closure of financial year or till he submits the cost audit report. Here his submission of the report did not go beyond six months from closure of financial year
- (150) **(B) Operating Cycle of Materials turnover**  
Key Performance indicator of manufacturing is the Operating cycle of Material, WIP, Finished Goods Turnover
- (151) **(C) An appraise management of business enterprise of responsibility towards consumers**  
The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services by making available the products and services of the right qualities at the right time, in right quantity, at the right place and right price
- (152) **(D) Either or all of the above**

This is as per clause 76 section 2 of the Companies Act 2013

**(153) (B) pre-scrutinize the validated instance document**

Reason will be: Once the instance document is successfully validated from the tool, the next step is to pre-scrutinize the validated instance document with the help of the same tool using a working internet connection. In the Pre-scrutiny, the server side validations shall be performed, using the MCA21 data base

**(154) (B) The Energy Conservation Act, 2001**

The Bureau is established by merging Energy Management Centre and controls energy conservation. Alternative Reason: The Bureau of Energy Efficiency formed under the Energy Conservation Act 2001. The agency's function is to develop programs which will increase the conservation and efficient use of energy in India

**(155) (D) Cost Auditing Standard 104**

The Audit Standard 104 deals with knowledge of Business, its processes and Business Environment, which includes knowledge on the Entity's Internal Control

**(156) (A) Part D para 2 of the Annexure to Cost Audit Report**

This is pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules

**(157) (D) ₹85,000**

Direct expenses = Royalty paid on units produced + Hire Charges of equipment used for production + Design charges + Software development charges related to production

$$= 25,000 + 20,000 + 18,000 + 22,000 = 85,000$$



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**Question 1.**

Cost Audit was first introduced in the year \_\_\_\_\_.

- A. 1959
- B. 1965
- C. 1949
- D. 1975

**Question 2.**

Cost Audit was first introduced for \_\_\_\_\_ industry.

- A. Cement
- B. Iron & Steel
- C. Jute
- D. Sugar

**Question 3.**

The applicability of cost audit under Companies (Cost Records & Audit) – Rules, 2014 for regulated industries having overall annual turnover during immediately preceding financial year is \_\_\_\_\_.

- (a) `25.00 crores or more
- (b) `35 .00 crores
- (c) `50.00 crores or more

(d) `100.00 crores

**Question 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

**Question 5.**

The form in which the cost records shall be maintained.

- (a) CRA-1
- (b) CRA-2
- (c) CRA-3
- (d) CRA-4

**Question 6.**

Which one of the below is not a regulated industry?

- (a) Telecommunication
- (b) Electricity
- (c) Drugs & Pharmaceuticals
- (d) Automobile

**Question 7.**

A cost accountant who fails comply with the provisions of sub-section (12) of Sec. 143 of the Companies Act, 2013, shall be punishable with fine of maximum ` \_\_\_\_\_.

- (a) ` 5.00 lakhs
- (b) ` 25.00 lakhs
- (c) ` 1.00 lakhs
- (d) ` 10.00 lakhs

**Question 8.**

Cost auditor to report fraud under section \_\_\_\_\_ of Companies Act, 2013.

- (a) Section 140(12)
- (b) Section 148(2)
- (c) Section 144(10)
- (d) Section 143(12)

**Question 9.**

The foreign exchange component of imported material is converted at the rate on \_\_\_\_\_.

- (a) Date of Payment
- (b) Date of Delivery
- (c) Date of Transaction
- (d) Date of Use

**Question 10.**

Idle capacity is the difference between \_\_\_\_\_.

- (a) Installed capacity and Actual Capacity Utilisation
- (b) Installed capacity and Normal Capacity
- (c) Abnormal Idle capacity and Normal Capacity
- (d) Installed capacity and Normal Capacity

**Question 11.**

Remuneration of the Non-Executive Directors is treated as\_\_\_\_\_.

- (a) Employee Costs
- (b) **Administrative Overheads**
- (c) Non-Cost Item
- (d) Selling & Distribution Overhead

**Question 12.**

The Cost Auditing Standard which deals with Cost Audit Documentation:

- a. 101
- b. **102**
- c. 103
- d. 104

**Question 13.**

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**

**Question 14.**

A shoe manufacturing company has a plant capacity of producing 700 shoes per shift. During the year of 300 working days, 3 shifts of 8 hours with half-hour recess per shift, it produces 35.91 lakh shoes.

The Normal Capacity Utilization percentage is:

- a. 82%
- b. 76%
- c. 74%
- d. 78%

**Question 15.**

Item appearing only in Cost Records is:

- a. Profit on Sale of Assets
- b. Interest Received
- c. Loss on Sale of Assets
- d. Notional Interest on Capital

**Question 16.**

CAS 21 deals with:

- a. Cost of Service Cost centre
- b. Quality control
- c. Capacity determination
- d. Cost Classification

**Question 17.**

In case Royalty and Technical Know-how fee is not directly traceable to a cost object then it can be assigned on the basis of \_\_\_\_\_.

- a. Units produced
- b. Units sold
- c. Sales value
- d. All of the above



**Question 18.**

Section 2(38) of the Companies Act, 2013, defines the term \_\_\_\_\_ which includes an engineer, a Valuer, a Chartered Accountant, a Company Secretary, a Cost Accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force.

- a. Certified Expert
- b. Authorized Signatory
- c. Expert Authority
- d. **Expert**

**Question 19.**

\_\_\_\_\_ is not a precondition to be fulfilled before conducting Cost Audit.

- a. Objective of Cost Audit
- b. Area, nature and scope
- c. Statutory deadlines
- d. **Provisions of the Competition Law**

**Question 20.**

The report post audit of cost records is submitted by the Cost Auditors to:

- a. Managing Director
- b. CFO
- c. Audit Committee
- d. **Board of Directors**

Question 21.

\_\_\_\_\_ is the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material

- a. **Inherent risk**
- b. Control risk
- c. Audit Risk
- d. Detection risk

Question 22.

The cost auditor should adopt appropriate procedures for maintaining confidentiality and safe custody of the \_\_\_\_\_ and for retaining them for a desirable period of time.

- a. **Working Papers**
- b. Cost Audit Programme
- c. Daily Worksheets
- d. All of the above

Question 23.

Any casual vacancy in the office of a cost auditor, due to resignation or death or removal, shall be filled by the \_\_\_\_\_ within \_\_\_ days of vacancy and the company shall inform the Central Government in Form \_\_\_\_\_ within thirty days of such appointment of cost auditor.

- a. **Board of Director, 30, CRA-2**
- b. Shareholders, 30, CRA-2
- c. Board of Director, 90, CRA-2

d. Board of Director, 30, CRA-3

Question 24.

Penalty paid to PF authorities is \_\_\_\_\_ in Employee Cost.

- (A) included
- (B) **excluded**
- (C) based on individual case
- (D) partly included

Question 26.

Cost of Inventory does not include

- (A) Costs of Purchase
- (B) Costs of Conversion
- (C) Other Direct Cost
- (D) **Administrative overheads that do not contribute to bringing inventories to their present location and condition**

Question 27.

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

Question 28.

Installed capacity is determined based on –

- (a) Number of shifts
- (b) Manufacturer's technical specifications
- (c) Capacity of individual
- (d) **All of the above**

Question 29

The appointment of Cost Auditor is defined under section \_\_\_\_\_ of the Companies Act, 2013.

- (a) Section 148(2)
- (b) **Section 148(3)**
- (c) Section 144(3)
- (d) Section 139

Question 30.

Director or any other officer who provisionally attaches any property under PMLA Act, 2002, shall, within a period of days from such attachment, file a complaint stating the facts of such attachment before the Adjudicating Authority?

- (a) **Thirty days**
- (b) Sixty days
- (c) Forty-five days
- (d) Ninety days

Question 31.

A Company is prohibited under section \_\_\_\_\_ of the Cost and Works Accountants Act, 1959 to practice as Cost Accountants

- (a) 12
- (b) **26**
- (c) 25
- (d) 28

Question 32.

Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding ₹ \_\_\_\_\_ lakh can not be appointed as the Cost Auditor of that company

- (a) 1
- (b) 5
- (c) 2.5
- (d) 4

Question 33.

CAS 11 deals with

- (a) Cost of utilities
- (b) Packing material cost
- (c) Employee cost
- (d) Admin overheads

Question 34.

Which of the following is not part of the Employee Cost as per CAS-7?

- (a) Leave with Pay
- (b) Medical benefits to the Employees and dependents
- (c) Compensation for Lay off period
- (d) Cost of Employees' stock option

Question 35.

Cost Auditing Standard 104 on Knowledge of business, its processes and the business environment was issued on \_\_\_\_\_ and is effective from \_\_\_\_\_.

- (a) 11<sup>th</sup> Sept, 2015 ; 10<sup>th</sup> Sept , 2015
- (b) 9<sup>th</sup> Sep, 2015 ; 10<sup>th</sup> Sept, 2015
- (c) 11<sup>th</sup> Sept ; 10<sup>th</sup> Sept
- (d) 10<sup>th</sup> Sept; 11<sup>th</sup> Sept.

Question 36.

The Cost Auditing Standard 102 relates to \_\_\_\_\_

- (a) Material Cost
- (b) Cost of utilities
- (c) Auditing procedures
- (d) **Cost Audit documentation**

Question 37

XBRL is a language based on:

- (A) XBL family of languages
- (B) XRL family of languages
- (C) **XML family of languages**
- (D) XGL family of languages

Question 38

Management audit is useful for

- (a) Suggestion for targets
- (b) Assistance to management
- (c) Good staff relationship
- (d) **All of the above**

Question 39

The management auditor's work begins

- (a) **After the work of a statutory auditor ends**
- (b) Before the work of a statutory auditor begins
- (c) Varies from firm to firm
- (d) None of the above

Question 40.

Cost audit is a verification of cost records to estimate the \_\_\_\_\_ efficiency of a business.

- (a) External
- (b) **Internal**



- (c) Both internal and external
- (d) None of the above

Question 41.

Which of the following statements are true about management audit?

- (a) The management audit is made compulsory and statutory.
- (b) Management audit is a programme of one year.
- (c) Management audit cannot be conducted by an independent person.
- (d) **No, time limit can be fixed for submission of the report under management audit**

Question 42.

Management auditor should be well versed with\_\_\_\_\_.

- (a) Management by exception.
- (b) Management by objectives.
- (c) Principles of delegation of authority.
- (d) **All of the above.**

Question 43.

A management auditor can recommend the most suitable system of flow of information\_\_\_\_\_.

- (a) Internally
- (b) Externally
- (c) **Internally and externally**
- (d) None of the above

Question 44.

Management auditor should have a thorough knowledge of\_\_\_\_\_.

- (a) Financial Accounting
- (b) Production techniques
- (c) Costing systems
- (d) **All of the above**

Question 45.

Which of these must be avoided in a technical report?

- (a) Facts.
- (b) Logical conclusion.
- (c) Objective evaluation.
- (d) **Subjective evaluation.**

Question 46.

Which of these is not a parameter of a report?

- (a) Ability to acquire additional information.
- (b) Quality of additional information acquired.
- (c) **Ability to arrive at a subjective evaluation.**
- (d) Ability to provide worthwhile recommendations

Question 47.

Which of these must never be a basis for a technical report?

- (a) Facts.
- (b) Tests.
- (c) **Personal prejudices.**
- (d) Experiments.

Question 48.

Which of these is not a parameter of a formal report?

- (a) Presentation.
- (b) **Complaint.**
- (c) Information.
- (d) Request.

Question 49.

— — — report provides rationed findings.

- (a) Informative.
- (b) **Interpretative.**

- (c) Routine.
- (d) Progress.

Question 50.

Collecting comments and suggestions from users to discover ways to continuously improve the data and process can be described as .

- (a) Implementation.
- (b) Exception.
- (c) **Feedback.**
- (d) Order.

Question 51.

\_\_\_\_\_are presented in the form of comparative statements.

- (a) Descriptive Reports.
- (b) Graphics Presentation.
- (c) Transactional Analysis.
- (d) **Tabular Reports.**

Question 52.

\_\_\_\_\_are to be presented after making an investigation of the problem which requires to be investigated.

- (a) Memorandum.
- (b) **Special reports.**
- (c) Summary.
- (d) Special facts.

Question 53.

Which of these is usually written in a form of a memorandum?

- (a) **Informal reports.**
- (b) Formal reports.
- (c) Professional reports.

(d) Business reports.

Question 54.

Management reporting can be performed as .

- (a) Internal reporting.
- (b) External reporting.
- (c) **Both (a) & (b).**
- (d) None of the above.

Question 55.

Important point in corporate planning is \_\_\_\_\_.

- (a) Time and Work Study
- (b) Imposing Control System
- (c) Forecasting and goal setting.
- (d) **SWOT analysis.**

Question 56.

Assurance engagements involve \_\_\_\_\_.

- (a) Only Individual Parties
- (b) **Three separate parties.**
- (c) Contractor and Contractee
- (d) None of them

Question 57.

The consumer service audit critically examines:

- (a) Outstanding payment of consumers.
- (b) Price consumers are ready to pay for particular product/service
- (c) **An appraise management of business enterprise of responsibility towards consumers.**
- (d) Demand of a product by consumers.

Question 58.

Consumer Service Audit is part of \_\_\_\_\_.

- (a) Business Activity Audit
- (b) **Social Audit**
- (c) Service Audit
- (d) None of Above

Question 59.

There are no fixed items of evidence to be checked by Management Auditor. A Management Auditor has to rely more on \_\_\_\_\_.

- (a) **his experience and acumen.**
- (b) Auditors Working Paper.
- (c) Physical Verification Sheet.
- (d) Information Provided by Management.

Question 60.

Which type of advertising focuses on the basis of experience that customers have with a company?

- (a) Corporate Image.
- (b) Institutional.
- (c) **Perception Oriented.**
- (d) Identity

Question 61.

Which of this is true for corporate image of an organisation?

- (a) Image is static and does not evolve over years.
- (b) Image should change every year.
- (c) Image should change with launch of every new product.
- (d) **Image should be built over years and then maintained.**

Question 62.

What is the essential trait of a PRO?

- (a) Have high standard of integrity.
- (b) Should be a learned.
- (c) Should gain the people's confidence easily.
- (d) **All of these.**

Question 63.

What refers to the act of offense of saying something false or malicious that damages somebody's reputation?

- (a) Libel.
- (b) **Slander.**
- (c) Defamation.
- (d) IPR violation

Question 64.

What is the business case for CSR?

- (a) Better motivated staff reduce operating costs.
- (b) Increased brand value and reputation.
- (c) None of the above.
- (d) **All of these**

Question 65

Who is starting point of bottom-up communication?

- (a) **Employees.**
- (b) Customers.
- (c) Management.
- (d) Depends upon the media.

Question 66

Controls are necessary for information systems as \_\_\_\_\_.

- (i) Massive amounts of data are processed and human errors are expected in data entry.
- (ii) Accidental errors can lead to loss of money and credibility in a system.

- (iii) To protect the system from virus attack.
- (iv) Data may be lost due to disk crashes.

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

Question 67

A check-point procedure \_\_\_\_\_.

- (a) Checks program correctness at certain points.
- (b) Divides a program into smaller parts.
- (c) Breaks programs into portions at the end of each of which a check point program is executed.
- (d) Finds points in a program where it is convenient to check it.

Question 68.

Audit in the design of information system is used to \_\_\_\_\_.

- (a) Inspect the system and check that it is built as per specifications.
- (b) Protect data from accidental or intentional loss.
- (c) Ensure that the system processes data as it was designed to and that the results are reliable.
- (d) Ensure the privacy of data processed by it

Question 69.

By auditing around the computer, we mean \_\_\_\_\_.

- (a) The inputs and the corresponding outputs are compared and checked for correctness.
- (b) The programs and procedures are checked for correctness.
- (c) Special synthetic data is input and outputs checked for correctness.
- (d) Programs are written to check the functioning of the computer.

Question 70.

An audit trail is established in a system to \_\_\_\_\_.

- (a) Detect errors in a system.
- (b) Enable auditing of a system.
- (c) **Localize the source of an error in a system.**
- (d) Trail a program.

Question 71.

In auditing with a computer \_\_\_\_\_.

- (a) **Auditing programs are designed and used to check a system.**
- (b) The hardware of the computer is thoroughly checked for malfunctions.
- (c) System software is thoroughly checked to ensure error-free operations.
- (d) Auditors check the system with a computer.

Question 72.

Parallel runs are used \_\_\_\_\_.

- (a) During regular operation of an information system.
- (b) **When a system is initially implemented.**
- (c) Whenever errors are found in a computerized system.
- (d) Whenever management insists

Question 73.

A firewall is used in a system connected to a wide area network to \_\_\_\_\_.

- (a) Prevent the spread of fire in the network.
- (b) **Prevent unauthorized access by hackers.**
- (c) To scan for viruses in files.
- (d) To extinguish fire spreading via network cables.

Question 74.

Security in the design of information systems is used to \_\_\_\_\_.

- (a) Inspect the system and check that it is built as per the specifications.
- (b) **Protect data and programs from accidental or intentional loss.**

- (c) Ensure that the system processes data as it was designed to and that the results are reliable.
- (d) Ensure the privacy of data processed by it.

Question 75.

Internal controls and internal checks are:

- (a) One and the same.
- (b) Different.
- (c) **Internal control includes internal checks.**
- (d) None of the above.

Question 76.

Verification is \_\_\_\_\_.

- (a) The art of recording the business transaction.
- (b) An examination of the books of accounts.
- (c) **The act of establishing the accuracy of entries in the books of accounts.**
- (d) None of the above.

Question 77

Which of the following is not likely to be a fraud risk factor relating to management characteristics?

- (a) Tax evasion.
- (b) Failure to correct known weakness in internal control system.
- (c) **Adoption of conservative accounting principles.**
- (d) High management turnover.

Question 78

The primary purpose of establishing quality control policies and procedures for deciding on client evaluation to \_\_\_\_\_.

- (a) Ensure adherence to generally accepted auditing standards.
- (b) **Acceptance or retention of clients whose management does not lack integrity.**

- (c) Ensure audit fees is charged according to the type of audit work assigned.
- (d) Medical policies.

Question 79.

CAATTS is also known as

- (a) Cost And Accounts Treatments
- (b) **Computer Assisted Audit Tools and Techniques**
- (c) Classification and Accounting of Tax Tools
- (d) Computer Aided Audit Tools and Techniques

Question 80.

Treating revenue expenditure as capital expenditure is an example of error of

- (a) **Principle**
- (b) Compensating
- (c) Clerical
- (d) None of the above

Question 81.

One of the major components of a government audit is/are:

- (a) Government Revenue
- (b) Union Budget and Control
- (c) **Government Expenditure**
- (d) Taxation and Fiscal Policies

Question 82.

Qualities of a good Internal Auditor are/is

- (a) Right Attitude
- (b) Technical Expertise
- (c) Communication and other soft skills.
- (d) **All of the above.**

Question 83.

Who can be appointed as Internal Auditor as per the Companies Act, 2013

- (a) A Chartered Accountant
- (b) A Cost Accountant
- (c) Such other professional
- (d) **All of the above**

Question 84.

C&AG has the right to direct how the company's accounts shall be audited by the auditor and to give such auditor instructions regarding any matter relating to the performance of his functions as per section \_\_\_\_\_.

- (a) 44AB of Income Tax Act
- (b) **143 of the Companies Act, 2013**
- (c) 173 of the Companies Act, 2013
- (d) 134 of the Companies Act, 2013

Question 85.

Under 'propriety audit', the auditors try to bring out what type of expenditure:

- (a) Improper
- (b) Avoidable
- (c) In fructuous
- (d) **All of the above**

Question 86.

What is the first step to conducting a Hospital Audit?

- (a) **Check the letter of appointment**
- (b) Study Trust Deed
- (c) Examine Records
- (d) Physical Verification

**Question 87.**

Co-operative Auditor has to examine the overdue debts if any, and a valuation of the assets and liabilities of the society while conducting an internal audit as per

- (a) Section 17(3) of the Cooperative Societies Act, 1912
- (b) **Section 17(2) of the Cooperative Societies Act, 1912**
- (c) Section 17(5) of the Cooperative Societies Act, 1912
- (d) Section 37(2) of the Cooperative Societies Act, 1912

**Question 88.**

Field Balance Sheet Approach to audit can be applied in case of audit of the

- (a) Co-Operative societies
- (b) Local Body Corporate
- (c) **Self-Help Group**
- (d) Club

**Question 89**

Forensic Accounting is defined as:

- (a) The practice of applying defined financial ratios to investigate a company's financial health.
- (b) The use of law enforcement to subpoena financial records to determine unlawful actions.
- (c) **The application of investigative and analytical skills to resolve financial issues in a manner that meets standards required by courts of law.**
- (d) The investigatory arm of the Securities and Exchange Commission.

**Question 90**

If your actions are the result of misleading, intentional actions or inaction (including misleading statements and the omission of relevant information to gain an advantage, then you have committed:

- (a) Perjury.
- (b) Contempt.
- (c) Treason.
- (d) **Fraud.**

Question 91.

As per the study of ACFE, the following category of individuals commit the highest frauds (in monetary terms)\_\_\_\_\_.

- (a) Low-level management.
- (b) Mid-level management.
- (c) Senior level management.
- (d) All of the above

Question 92

A type of fraud where forged emails, forged websites are used to defraud the user is known as \_\_\_\_\_.

- (a) E-frauds.
- (b) Forgery.
- (c) Phishing.
- (d) None of the above

Question 93.

A \_\_\_\_\_ is a flag that denotes a “too good to be true scenario”.

- (a) Red flag.
- (b) Green flag.
- (c) Amber flag.
- (d) White flag

Question 94

Significant increase in working capital borrowing as a percentage of turnover is a\_\_\_\_\_.

- (a) Red flag.
- (b) Green flag.
- (c) Amber flag.
- (d) White flag.

Question 95.

The principle of 3D vision includes \_\_\_\_\_.

- (a) Time dimension analysis.
- (b) Space dimension analysis.
- (c) **Both (a) & (b).**
- (d) None of the above.

Question 96.

Prevention of Money Laundering Act, 2002 came into force on?

- (a) 1st January 2002
- (b) **1st July 2005**
- (c) 1st June 2004
- (d) 1st November 2002

Question 97

“Financial institution” as defined under Section 2(l) of Prevention of Money Laundering Act, 2002 does NOT include?

- (i) a chit fund company,
- (ii) a housing finance institution,
- (iii) a payment system operator,
- (iv) a non- banking financial company,
- (v) Department of Posts in the Government of India.

- (a) (v) only
- (b) (iv) only
- (c) (ii), (iv) and (v) only
- (d) **None of the above**

Question 98

Offence of money laundering is defined in which section of PMLA Act, 2002?

- (a) **Section 3**

- (b) Section 2
- (c) Section 1
- (d) Section 11

Question 99

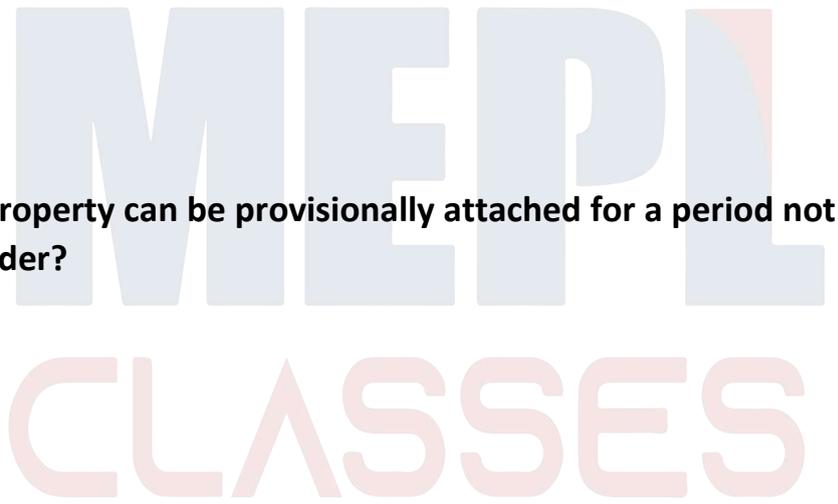
Which among the following authority appointed by the Central Government shall exercise jurisdiction, powers, and authority conferred by or under the Prevention of Money Laundering Act, 2002?

- (a) Administrative Authority
- (b) **Adjudicating Authority**
- (c) Appellate Authority
- (d) Adjudicating Commission

Question 100

As per section 5 of PMLA Act, 2002, the property can be provisionally attached for a period not exceeding \_\_\_\_\_ from the date of the order?

- (a) 60 days
- (b) 90 days
- (c) 120 days
- (d) **180 days**



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# Chapter 1 : Companies Cost Records and Audit Rules

## Objective Type Questions

### FILL IN THE BLANKS

1. Cost Audit was initially introduced in the year \_\_\_\_\_ .(1965)
2. According to CAS 8 on Utilities the cost of maintaining stand-by utilities is \_\_\_\_\_ cost. (committed)
3. Efficiency audit ensures \_\_\_\_\_ return on Capital Employed.(optimum)
4. Equalized transportation cost means \_\_\_\_\_ transportation cost incurred during a specified period. (average)
5. Value Addition is the difference between \_\_\_\_\_ and the cost of bought out materials and services. (net output value)
6. CAS 5 deals with \_\_\_\_\_ (equalized cost of transportation).
7. \_\_\_\_\_ ensures that every rupee invested in capital or other fields gives optimum returns. (Efficiency)
8. Variances due to abnormal reasons \_\_\_\_\_ form part of cost. (will not. Note: This is as per Generally Accepted Cost Accounting Principles)
9. XBRL is a language based on \_\_\_\_\_ (XML family of languages)
10. Costing Taxonomy is best defined as a \_\_\_\_\_ (dictionary)

### TRUE OR FALSE

1. Cost Audit is synonymous with efficiency audit. (True. The Cost audit Report mainly comment on the efficiency of the company namely, utilization aspect of the factors of production)
2. Part B of the Annexure to Cost Audit Report relates to service sector. (False. Part B of the Annexure to Cost Audit Report relates to Manufacturing sector)
3. Quantitative Information as part of Annexure to Cost Audit Report needs to be shown for Current Year only. (False. Quantitative Information as part of Annexure to Cost Audit Report needs to be shown for Current Year and Previous Year.)
4. Profit reconciliation for the company as a whole is dealt in Part C of the Annexure to Cost Audit Report. (False. Profit reconciliation for the company as a whole is dealt in Part D of the Annexure to Cost Audit Report.)
5. CAS 24 deals with Treatment of Revenue in Cost Statements.(True)
6. As per Companies (Cost Records and Audit) Rules, 2014, Profit Reconciliation (for company as a whole information is required to be given for Current Year and Previous 2 years. (False. Information need to be given for Current Year and Previous Year only)

**MULTIPLE CHOICE QUESTION**



**Choose the correct option among four alternative answer and justify your answer:**

1. The form in which the cost records shall be maintained \_\_\_\_\_.  
a) CRA-1  
b) CRA-2  
c) CRA-3  
d) CRA-4
2. The Cost Audit Report under CCRA – Rules, 2014 is to be submitted in \_\_\_\_\_.  
a) CRA-1  
b) CRA-2  
c) CRA-3  
d) CRA-4
3. The form in which appointment of cost auditor by the company to Central Government is intimated  
a) CRA-1  
b) CRA-2  
c) CRA-3  
d) CRA-4
4. The applicability of maintenance cost records under CCRA – Rules, 2014 for regulated industries having overall turnover of  
a) ₹ 25.00 crores  
b) ₹ 35 .00 crores  
c) ₹ 50.00 crores  
d) ₹ 100.00 crores
5. Which one of the below is not a regulated industry  
a) Fertilizers  
b) Paper  
c) Sugar  
d) Petroleum products
6. The cost auditor shall be appointed within days of the beginning of the financial year.  
a) 60 days  
b) 90 days  
c) 180 days  
d) 270 days
7. 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) 180 days
8. Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of \_\_\_\_\_ days from the closure of the financial year to which the report relates.  
a) 60 days  
b) 90 days  
c) 180 days  
d) 270 days
9. Exemptions from application of the Rules are provided to Companies whose revenue from exports, in foreign exchange, exceeds \_\_\_\_\_ of total revenue and companies operating from Special Economic Zones.  
a) 45%  
b) 50%  
c) 75%  
d) 80%
10. Cost Auditor's observation and suggestions are given in \_\_\_\_\_.  
a) CRA-3  
b) CRA -2  
c) CRA-1  
d) Annexure
11. \_\_\_\_\_ of the Annexure to the Cost Audit Report prescribes the method of calculation of Value Addition.  
a) Part A  
b) Part B

- c) Part C  
d) Part D
12. The Annexure to the Cost Audit Report should be signed by:
- The CFO and the Managing Director
  - One Director and Secretary
  - The Secretary and the CFO
  - The Officer –in –charge of Cost Accounts and the Secretary.
13. Cost Auditor shall within 180 days from closure of Financial Year forward his duly signed report to:
- Board of Directors
  - Government
  - Shareholders
  - Audit Committee.
14. The category of Companies specified in Rule 3 shall appoint Cost Auditor within :
- 90 days of commencement of Financial Year
  - 60 days of commencement of Financial Year
  - 180 days of commencement of Financial Year
  - 30 days of commencement of Financial Year
15. Profit reconciliation for the company as a whole is dealt in :
- Part D para 2 of the Annexure to Cost Audit Report.
  - Part C para 1 of the Annexure to Cost Audit Report.
  - Form of the Cost Audit Report.
  - Part A para 1 of the Annexure to Cost Audit Report.
16. In Cost Audit Report, auditor's observations and suggestions are given in:
- Part A of the Annexure to Cost Audit Report
  - Part B of the Annexure to Cost Audit Report
  - Part C of the Annexure to Cost Audit Report
  - Form of the Cost Audit Report.
17. Company has to upload Cost Audit Report electronically to the MCA through
- Form CRA -1
  - Form CRA-2
  - Form CRA-3
  - Form CRA-4
18. Financial Position and Ratio Analysis information in Annexure to Cost Audit Report to be provided for:
- Current Year and Previous Year
  - Current Year and Previous 2 Years
  - Current Year and Previous 3 years
  - Current year only.
19. Rule 6 of the Companies (Cost Records and Audit) Rules, 2014 deals with:
- Application of Cost Records
  - Application of Cost Audit
  - Appointment of Cost Auditor
  - Cost Audit Report.
20. Cost of self generation Utilities for own consumption shall comprise of:
- Administrative Overheads
  - Distribution Cost
  - Factory overheads
  - None of the above.
21. Product and Profitability Statement (For audited products/services) is shown under \_\_\_\_\_ of Annexure to Cost Audit Report.
- Part A
  - Part B
  - Part C
  - Part D
22. Before submission to the Auditor for Report, the Form CRA 3 should be signed by \_\_\_\_\_.
- The Secretary and the Chief Finance Officer of the company.
  - The Secretary and the Cost Accounts Officer of the company.
  - The Secretary and one Director of the company.

- d) The Chief Finance Officer and the Managing Director of the company.
23. The useful life of an intangible asset, like amount paid on technical knowhow, shall not exceed \_\_\_\_\_ from the date it is available for use.
- a) 5 years
  - b) 8 years
  - c) 10 years
  - d) 12 years
24. Which of the following ratios appears as Profitability Ratio in Part D of Annexure to the Cost Audit Report ?
- a) Net Profit to Net Sale
  - b) Value added to Net Sales
  - c) Profit before Tax to Value Added.
  - d) Net Profit to Share Capital.
25. As per Part D, Para 4 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on
- a) Audited Financial Data
  - b) Cost Record Data
  - c) Unaudited Financial Data
  - d) Both (a) and (b)
26. 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 (Eng., Procurement, Constn.) contract
27. Copy of Cost Audit Report neednot be submitted to
- a) Central Government
  - b) Board of Directors of the Company
  - c) Members at Annual General Meeting of the Company.
  - d) Income Tax Officer along with the Income tax Return.
28. Number of Sectors/industry product/service under Regulated category are:
- a) Three
  - b) Two
  - c) Six
  - d) Five
29. PART B of the Annexure to Cost Audit Report provides information on :
- a) Service sector
  - b) Manufacturing sector
  - c) Agricultural Sector
  - d) Foreign Trade.

**- ANSWERS -**

1. (a) CRA-1  
The form CRA-1 prescribes the form in which cost records shall be maintained. The form categorizes the requirement of maintaining proper details as per 30 headings. The headings are 1. Material Cost, 2. Employee Cost, 3. Utilities etc.
2. (c) CRA-3  
Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3.
3. (b) CRA-2  
Every company referred to in sub-rule (1) shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.
4. (b) ₹ 35.00 crore  
The applicability of maintenance cost records under CCRA – Rules, 2014 for regulated industries having overall turnover of ₹ 35.00 crores or more.
5. (b) Paper  
Paper industry is a non-regulated industry.
6. (c) 180 days  
As per Rule-6 of the Companies (Cost Records and Audit) Rules, 2014 the cost auditor shall be appointed within 180 days of the beginning of the financial year.
7. (a) 30 days  
As per Rule-6 of the Companies (Cost Records and Audit) Rules, 2014, 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 thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.
8. (c) 180 days  
Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.
9. (c) 75%.  
The requirement of Cost Audit under these rules shall not apply to companies whose revenue from exports in foreign exchange exceed 75% of total revenue and companies operating in special economic zone.
10. (a) CRA-3.  
This is as per format prescribed by Companies(Cost Records and Audit ) Rules, 2014.

## 11. (d) Part D

Annexure to the Cost Audit Report - Part D prescribes the method of calculation of Value Addition. The term "Value Addition" has been defined under the Companies (Cost Records and Audit) Rules, 2014 as the difference between net output value (net sales adjusted for WIP and finished stock) and cost of bought out materials and services for the product under reference.

12. (b) One Director and Secretary This is pursuant to Rule 6(3B) of the Companies (Cost Records and Audit) Rules, 2014.

13. (a) Board of Directors This is pursuant to Rule 6(5) of the Companies (Cost Records and Audit) Rules, 2014.

14. (c) 180 days of commencement of Financial Year This is pursuant to Rule 6(1) of the Companies (Cost Records and Audit) Rules, 2014.

15. (a) Part D para 2 of the Annexure to Cost Audit Report.

This is pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014.

16. (d) Form of the Cost Audit Report.

This is pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014

17. (d) Form CRA-4

This is pursuant to Rule 6(6) of the Companies (Cost Records and Audit) Rules, 2014

18. (a) Current Year and Previous Year

This is pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014

19. (c) Appointment of Cost Auditor.

According to Rule 6(1), the category of companies specified in Rule 3 and the thresholds limits laid down in Rule 4, shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.

Provided that before such appointment is made, the written consent of the cost auditor to such appointment, and a certificate from him or it, as provided in sub-rule (1A), shall be obtained.

20. (c) Factory overheads

As per CAS 8, cost of self generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.

21. (d) Part D

Pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014.

22. (c) the Secretary and one Director of the company

Annexure to the Cost Audit Report in CRA 3 shall be approved by the Board of Directors and by signed by the Company Secretary and a Director authorized by the Board before submission to the Auditor for Report.

23. (c) 10 years

CAS 16 on depreciation and amortization states that useful life of an intangible asset shall not exceed 10 years from the date it is available for use.

24. (c) Profit before Tax to Value Added

This is one of the four ratios identified as Profitability Ratios in Part D of Annexure to the Cost Audit Report.

25. (a) Audited Financial Data

As per part D, para 3 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on Audited Financial Accounts.

26. (c) A Company working in Special Economic Zone.

As per Rule 4(3) (ii) of the Companies (Cost Records and Audit) Rules 2014 such units would be outside the purview of cost audit.

27. (c) Members at Annual General Meeting of the Company.

The shareholders and the general public have no access to the Cost audit Report unlike the Financial Audit Report. Cost Audit Report is treated as a confidential document as it contains vital information which if divulged would affect competitiveness of trade and business of the company whose information is so divulged.

28. (c) Six

This is as per Table A of Section 3 of the Companies(Cost Records and Audit)Rules, 2014.

29. (b) Manufacturing sector.

Companies (Cost Records and Audit) , Rules 2014 prescribes this format of information .

22. CAS 23 deals with .....
- Quality Control
  - Manufacturing Cost
  - Overburden Removal Cost
  - Treatment of Revenue in Cost Statements
23. As per the CAS 23, the activity of Overburden Removal that benefits the identified component of an ore to be mined by the entity is called as .....
- Mining Activity
  - Overburden Removal
  - Stripping Activity
  - Advance Stripping
24. The Cost Accounting Standard 15 is a Cost Accounting Standard on .....
- Employee Cost
  - Utilities Cost
  - Pollution Control Cost
  - Selling and Distribution Overheads Cost
25. Royalty paid on production ₹ 35,000, Job Charges ₹ 20,000, Special Design Charges ₹ 20,000, Software Development Charges related to Production ₹ 27,000, and Travelling abroad for Training ₹ 25,000 The Direct Expenses as per CAS 10 is ₹ .....
- 92,000
  - 1,00,000
  - 1,02,000
  - 1,27,000
26. Part C of the Annexure to the Cost Audit Report in CRA 3 deals with .....
- Manufacturing Sector
  - Service Sector
  - Regulated Sector
  - Unregulated Sector
27. Cost Accounting Standard 8 is a Cost Accounting Standard on .....
- Employee Cost
  - Utilities Cost
  - Pollution Control Cost
  - Selling and Distribution Cost
28. A shoe manufacturing company has a plant capacity of producing 700 shoes per shift. During the year of 300 working days, 3 shifts of 8 hours with half-hour recess per shift, it produces 35.91 lakh shoes. The Normal Capacity Utilization percentage is \_\_\_\_.
- 82%
  - 76%
  - 74%
  - 78%

## - ANSWERS -

1. (a) Installed Capacity
2. (a) Royalty and Technical Knowhow fee.
3. (a) Equalized cost of transportation.  
The objective of the standard is to bring uniformity in the application of principles and methods used in the determination of averaged/ equalized transportation cost.
4. (c) Pollution Control Cost.
5. (d) Selling and Distribution Overhead Cost  
CAS 15 deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements.
6. (a) Direct Material cost  
As per the GACAP, Direct Materials Cost includes cost of procurement and freight inwards of the materials.
7. (a) Will Not
8. (a) Administrative Overheads  
This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.
9. (c) Date of transaction  
This is as per CAS 6 and GACAP
10. (b) Utilities Cost  
CAS 8 deals with the Cost Accounting Standard on cost of utilities.
11. (d) Employee Cost  
This standard deals with the principles and methods of classification, measurement and assignment of Employee cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.
12. (b) Excluded  
As per CAS 7, Compensation paid to employees for the past period is not normal cost and hence is excluded from employee cost.
13. (c) Packing Material Cost  
CAS – 9 deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in cost statements.
14. (d) Treatment of Revenue in Cost Statements  
Effective from 1st April, 2017, CAS 24 on Treatment of Revenue in Cost Statements has become applicable.

## 15. (b) CAS 2

This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment of the cost of product or service, and the presentation and disclosure in cost statements.

## 16. (a) Direct Expenses

This standard deals with the principles and methods of classification, measurement and assignment of Direct Expenses, for determination of the cost of product or service, and the presentation and disclosure in cost statements.

## 17. (c) Cost of sale

This is as per CAS 5 on Cost Accounting Standard on determination of average cost of transportation.

## 18. (b) Cost of Service Cost centre

This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centre, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

## 19. (c) Average (Equalised Cost of Transportation)

The objective of the standard is to bring uniformity in the application of principles and methods used in the determination of averaged/ equalized transportation cost.

## 20. (b) Excluded

Penalty paid to PF authorities is not normal cost. Hence excluded as per CAS 7 from Employee Cost.

## 21. (a) CRA-4

Pursuant to Section 148 (6) of the Companies Act, 2013, and Rule 6 (6) of the Companies (Cost Records and Audit) Rules, 2014, the Cost Audit Report is to be filed in Form CRA-4 with the Central Government.

## 22. (c) Overburden Removal Cost

Cost Accounting Standard (CAS) 23 is issued by the Council of The Institute of Cost Accountants of India on "Overburden Removal Cost". It is applicable from 1st April, 2017.

## 23. (c) Stripping Activity

As per the Cost Accounting Standard on Overburden Removal Cost, the Stripping Activity refers to the activity of overburden removal that benefits the identified component of an ore to be mined by the entity.

## 24. (d) Selling and Distribution Overhead Cost

CAS 15 deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements.

## 25. (d) ₹ 1,27,000

[direct expenses as per CAS 10 = royalty paid on production + Job charges + Special Design Charges + Software development charges related to production + Travelling abroad for training = ₹ (35,000 + 20,000 + 20,000 + 27,000 + 25,000) = ₹ 1,27,000 ]

## 26. (b) Service Sector

Part C of the Annexure to the Cost Audit Report in Form CRA 3 pursuant to the Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014, gives quantitative information and abridged cost statement for services in the Service Sector.

## 27. (b) Utilities Cost

CAS 8 deals with the Cost Accounting Standard on cost of utilities.

## 28. (b) 76%

Available capacity =  $300 \times (8-0.5) \times 3 \times 700 = 47.25$  lakh units  
Actual Capacity Utilization % =  $35.91/47.25 = 76\%$

## Chapter 3 : Management Reporting Issues under Cost Audit

### Objective Type Questions

#### FILL IN THE BLANKS

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1. Efficiency audit ensures \_\_\_\_\_ return on Capital Employed. **(optimum)**
2. Management audit requires \_\_\_\_\_ approach. **(inter-disciplinary)**

#### TRUE OR FALSE

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1. Dumping is an 'illegal' practice. **(False. Dumping is an 'unfair' practice)**
2. Zero base budget (ZBB) system was modeled by Peter A. Woodcock. **(False. ZBB System was modeled by Peter A. Phyrh)**
3. Important point in Corporate planning is SWOT analysis. **(True. A SWOT-strengths, weaknesses, opportunities and threats analysis can help identify and understand key issues affecting the business)**

## MULTIPLE CHOICE QUESTION



Choose the correct option among four alternative answer and justify your answer:

1. Which one of the following is covered under performance analysis report?
  - a) Cost per unit of material used
  - b) Cost of utilities
  - c) Impact of IFRS on the Cost Structure
  - d) Impact of CAS and GACAP
2. The Bureau of Energy Efficiency formed Under
  - a) The Companies Act, 2013
  - b) The Energy Conservation Act, 2001
  - c) The Income Tax Act, 1961
  - d) None of the above
3. Activity based costing is used for the purpose of
  - a) Cost Computation
  - b) Cost Reduction
  - c) Cost Control
  - d) Total performance management
4. Performance pyramid is basically used for the purpose of
  - a) Cost Computation
  - b) Cost Reduction
  - c) Cost Control
  - d) Total performance management
5. Life cycle costing is used for the purpose of -
  - a) Cost Reduction
  - b) Pricing and decision making
  - c) Total performance management
  - d) Cost Control.
6. Quality costing is used for the purpose of
  - a) Cost Reduction
  - b) Pricing and decision making
  - c) Total performance management
  - d) Cost Control
7. KPI can be classified in the following Category .
  - a) Quantitative & Qualitative
  - b) Actionable
  - c) Trending
  - d) All of the above
8. Which one of the following KPI is used to measure productivity & efficiency of a machine?
  - a) % of Idle time to total available time
  - b) Machine downtime ratio
  - c) Cost per of Break-Down Hour
  - d) Contribution per unit of material used.
9. Financial Position and Ratio Analysis information in Annexure to Cost Audit Report to be provided for:
  - a) Current Year and Previous Year
  - b) Current Year and Previous 2 Years
  - c) Current Year and Previous 3 years
  - d) Current year only.

**- ANSWERS -**

1. (c) Impact of IFRS on the Cost Structure.  
The Report on Performance Analysis may include the following.
  - (i) Manpower Analysis
  - (ii) Impact of IFRS on the Cost Structure, Cash-Flows and Profitability
  - (iii) Application of Management Accounting Tools etc.
2. (b) The Energy Conservation Act, 2001  
The Bureau of Energy Efficiency formed under the Energy Conservation Act 2001. The agency's function is to develop programs which will increase the conservation and efficient use of energy in India.
3. (a) Cost Computation  
Activity based costing is a management accounting tool which is used to measure cost computation.
4. (d) Total performance management.  
Performance Pyramid is a management accounting tool which is used to measure total performance of organization.
5. (b) Pricing and decision making  
Life cycle costing is a management accounting tool which is used for the purpose of pricing and decision making of the organization.
6. (a) Cost Reduction  
Quality costing is a management accounting tool which is used for the purpose of cost reduction of the organization.
7. (a) All of the above  
The KPIs could be:
  - (i) Quantitative – these can be financial or non-financial
  - (ii) Qualitative – these are often lead indicators i.e. they influence future performance
  - (iii) Actionable – those which can be influenced by enterprise actions or controllable
  - (iv) Trending – those which need to be assessed over a period of time to observe whether they are improving or not.
8. (b) Machine downtime ratio  
It is a ratio which indicates the efficiency and productivity of a machine. So, it is a key performance indicator to measure performance of a machine.
9. (a) Current Year and Previous Year  
This is pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014

## Chapter 4 : Case Study on Performance Analysis

### Objective Type Questions

#### FILL IN THE BLANKS

- Value Addition is the difference between \_\_\_\_\_ and the cost of bought out materials and services. (**net output value**)
- \_\_\_\_\_ ensures that every rupee invested in capital or other fields gives optimum returns. (**Efficiency**)

#### TRUE OR FALSE

- Market research cost is not a part of Research and Development Cost. (**True. Market Research is part of Selling and Distribution Cost.**)

#### MULTIPLE CHOICE QUESTION

Choose the correct option among four alternative answer and justify your answer:

- Royalty paid on sales ₹30,000; Royalty paid on units produced ₹20,000, Hire Charges of equipment used for production ₹2,000, Design charges ₹15,000, Software development charges related to production ₹22,000. The Direct Expenses amount is :
  - ₹88,000
  - ₹89,000
  - ₹99,000
  - ₹98,000
- The Balance Sheet of X Ltd. As on 31st March 2017 showed the following information: Capital - ₹1500 lacs, Reserves - ₹696 lacs, Loans - ₹600 lacs, Sundry Creditors 774 lacs, Total assets - ₹3570 lacs. For the year 16-17, PBT - ₹900 lacs, provision for tax is ₹360 lacs and proposed dividend is ₹ 300 lacs. Return on Networth is:
  - 30.41 %
  - 29.41 %
  - 28.41 %
  - 27.41%
- Gross Sales ₹16500 lacs, Excise Duty ₹1240 lacs, Increase in stock ₹42 lacs, Cost of raw materials ₹6250 lacs, Power ₹2220 lacs, other overheads ₹ 215 lacs, Value Added is:
  - ₹15260 Lac.
  - ₹6617 Lac.
  - ₹6533 Lac.
  - ₹15302 lac.
- A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is .
  - 735.27 Kg.
  - 725.27 Kg.
  - 745.27 Kg.
  - 755.27 Kg.
- Royalty paid on units produced ₹ 20,000, Hire Charges of equipment used for production ₹2,000, Design charges ₹ 15,000, Software development charges related to production ₹ 22,000. The Direct Expenses is:

- a) ₹57000  
b) ₹59000  
c) ₹37000  
d) ₹44000
6. Which one of the following costs appeared only in Cost Accounts?  
a) Interest on mortgage and loans  
b) Notional Interest on Capital  
c) Dividend equalization fund, sinking, fund etc.  
d) Loss due to scrapping of plan and machinery
7. The taxable goods not sold but used for consumption for manufacture in the production of other articles should be valued at of cost.  
a) 100 %  
b) 90 %  
c) 110 %  
d) 95 %
8. Which one of the followings in an example of "Solvency Ratio"  
a) Capital turnover Ratio  
b) Debt Equity ratio  
c) Debtors Turnover Ratio  
d) None of above
9. Cost of Inventory does not include  
a) Costs of Purchase  
b) Costs of Conversion  
c) Other Direct Cost  
d) Administrative overheads that do not contribute to bringing inventories to their present location and condition
10. Which one of the followings in an example of "Profitability Ratio"  
a) Inventory Turnover Ratio  
b) Proprietary Ratio  
c) Expenses Ratio  
d) Capital Gearing Ratio
11. Which one of the following is not an utilities,  
a) Steam  
b) Water  
c) Compressed Air  
d) Broadband internet services
12. The figures below are available for Good Luck Limited. Budgeted Production - 900 units, Standard Hours per unit -10, Actual Production - 720 units and Actual Working - 6000 hours. What is the Efficiency Ratio?  
a) 110%  
b) 120%  
c) 100%  
d) 125%
13. A manufacturing unit showed, during the Financial Year 2016-17, the following financial data (in ₹ lakh): Net Sales 1,250, Export Incentives 85, Other income 106, Adj. of Finished Stock (+) 95, Materials 634, Salaries 425, Overheads 101.8, and Tax 52.6. The Value Added as per Rules is (in ₹ lakh)  
\_\_\_\_\_  
a) 946  
b) 796  
c) 755  
d) 688
14. Operational Audit can lead to better management with the focus on \_\_\_\_\_.  
a) transaction-based analysis for fraud prevention  
b) compliance of rules  
c) risk identification, process improvement  
d) budget monitoring

## - ANSWERS -

1. (b) ₹89,000

Direct expenses = Royalty paid on sales + Royalty on unites produced + Hire charges on equipment + Design Charges + Software development charges = ₹(30000+20000+2000+15000+22000)= ₹89,000

2. (b) 29.41%

Networth = Capital + Reserves - Revaluation reserve (if any) - accumulated losses (if any) - deferred expenditure (if any) - misc. expenditure not written off (if any)

Networth = ₹1500 + ₹696 - ₹360 = ₹1836, Total Earning = ₹900 - ₹360 = ₹540 Return on Networth = ₹540 / ₹1836 = 29.41%

3. (b) ₹6617 lac.

Value Addition = Gross sales less Excise Duty Add Increase in stock less Cost of Raw materials less Power less Other Overheads = ₹16500 - ₹1240 + ₹42 - ₹6250 - ₹2220 - ₹215 lac = ₹6617 lac.

4. (b) 725.27 kg.

Output at Ring Frame =  $1000 \times 92\% \times 94\% \times 96\% \times 96\% \times 91\% = 725.27 \text{ kgs.}$

5. (b) ₹59000/-

Direct expenses = Royalty paid on units produced + Hire Charges of equipment used for production + Design charges + Software development charges related to production = ₹20000 + ₹2000 + ₹15000 + ₹22000 = ₹59000/-

6. (b) Notional Interest on Capital.

Any Notional Costs are appeared only in cost accounts but not entered in financial accounts as actual outlay has not occurred.

7. (c) 110%.

As per Rule 30 of CGST Rules, the value shall be 110% of Cost of Production.

8. (b) Debt Equity ratio

Debt Equity ratio represent the long term solvency position of an entity. It is a ratio of debt to equity representing ratio of debt in capital structure.

9. (d) Administrative overheads that do not contribute to bringing inventories to their present location and condition

Costs that are excluded from inventory valuation Certain costs are excluded in valuing inventory are:-

- Abnormal amounts of wasted materials, labor, or other production costs
- Storage costs unless they are essential to the production process

Administrative overheads that do not contribute to bringing inventories to their present location and condition etc.

10. (c) Expenses Ratio

Expenses Ratio is a profitability ratio with respect to sales. It is a ratio of a particular expense to sales.

11. (d) Broadband internet services.  
The term 'Utilities' refer to significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.
12. (b) 120%  
Efficiency ratio=(Standard Hours of actual Production)/(Actual Hours Worked) $\times 100 = (720 \times 10)/6,000 = 120\%$
13. (b) ₹ 796 Lakh.  
(Sales 1250 + Export Incentive 85 + Adj of Finished stock 95)-(Materials 634) = ₹ 796 Lakh.
14. (c) risk identification, process improvement  
The objective is to assist the organization in performing the functions more effectively and economically with focus on the efficiency and the effectiveness of the operations, giving an early warning system for the detection of the potentially-destructive problems.

## Chapter 5 : Basics of Cost & Management Audit

### Objective Type Questions

#### FILL IN THE BLANKS

1. Cost Audit was initially introduced in the year \_\_\_\_\_ .(1965)

#### MULTIPLE CHOICE QUESTION

Choose the correct option among four alternative answer and justify your answer:

- Cost Audit was initially introduced in the year -
  - 1959
  - 1965
  - 1949
  - 1975
- Cost Records are maintained on \_\_\_\_\_ basis.
  - Accrual
  - Cash
  - Actual
  - None of these
- Item appearing only in Cost Records is \_\_\_\_
  - Profit on Sale of Assets
  - Interest Received
  - Loss on Sale of Assets
  - Notional Interest on Capital
- The cost records are to be maintained as specified in:
  - CRA3
  - CRA1
  - CRA 4
  - CRA 2
- Cost Information the organization to structure the cost, understand it and use it for communicating with the stakeholders.
  - Enables
  - Disables
  - Useful
  - None of these
- Costing includes product, process, and resource-related information covering the \_\_\_\_\_ of the organization and its value chain.
  - Performance
  - Ability
  - Consistency
  - Functions
- Costing is an important tool in \_\_\_\_\_ organizational performance in terms of shareholder and stakeholder value.
  - Determining
  - Calculating
  - Assessing
  - None of these
- The Cost Auditor appointed has to render the cost audit report to the board of directors of the Company, as per the specified time limit, in Form \_\_\_\_\_.
  - CRA-3
  - CRA - 1
  - XBRL
  - CRA - 2
- Cost Audit represents true and fair view of the \_\_\_\_\_ of any product.
  - Cost of sale
  - Cost of raw material consumption
  - Cost of production
  - None of these

10. Cost Audit \_\_\_\_\_ conducted by a Chartered Accountant.
- a) May be  
b) Can be  
c) Cannot be  
d) May not be
11. 'Sugar and Industrial Alcohol' belong to \_\_\_\_\_ sector for the purpose of Application of Cost Records.
- a) Regulated  
b) Non-Regulated  
c) Both depending on circumstances  
d) None of above.
12. In which CRA Form, is the Cost Audit Report of a company filed with the Central Government?
- a) CRA-4  
b) CRA-3  
c) CRA - 1  
d) CRA-2

**- ANSWERS -**

1. b) 1965
2. a) Accrual
3. d) Notional interest on capital.  
This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.
4. b) CRA1  
Pursuant to Rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014
5. a) Enables
6. d) Functions
7. c) Assessing
8. a) CRA-3  
As per Rule 6(3) of Companies Cost Records and Audit Rules, 2014, Cost Auditor shall submit the Cost Audit Report in Form No. CRA-3.
9. c) Cost of Production  
The objective of a Cost Auditor is to express an opinion on the truthness and fairness of Cost of Production.
10. c) Cannot be  
As per Section 148 (3) of the Companies Act 2013, Cost Audit shall be conducted by a Cost Accountant as appointed by the Board.
11. a) Regulated  
As per Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 Table A.
12. a) CRA-4  
Pursuant to Section 148 (6) of the Companies Act, 2013, and Rule 6 (6) of the Companies (Cost Records and Audit) Rules, 2014, the Cost Audit Report is to be filed in Form CRA-4 with the Central Government.

## Chapter 6 : Cost Audit Documentation & Audit Process

### Objective Type Questions

#### MULTIPLE CHOICE QUESTION



Choose the correct option among four alternative answer and justify your answer:

1. Cost Auditing Standard \_\_\_\_\_ deals with Cost Audit Documentation.
  - a) 101
  - b) 102
  - c) 103
  - d) 104
2. What is the first stage of an audit of cost statement?
  - a) Planning
  - b) Performing
  - c) Reporting
  - d) None of the above
3. What is the final stage of an audit of cost statement?
  - a) Planning
  - b) Performing
  - c) Reporting
  - d) None of the above

#### - ANSWERS -

1. b) 102  
Cost Auditing Standard – 102 deals with Cost Audit Documentation. The purpose of this Standard is to provide guidance to the members in preparation of Audit Documentation in the context of the audit of cost statements, records and other related documents.
2. a) Planning  
Planning is the first stage of an audit. The planning stage involves determining the audit strategy as well as identifying the nature and the timing of the procedures to be performed.
3. c) Reporting  
Reporting is the final stage of an audit. The auditor's opinion is expressed in the audit report. The final stage of the audit involves drawing conclusions based on the evidence gathered and arriving at an opinion regarding the fair presentation of cost statements.

## Chapter 7: Cost Auditor - Professional Ethics & Responsibilities

### Objective Type Questions

#### MULTIPLE CHOICE QUESTION

Choose the correct option among four alternative answer and justify your answer:

1. "Cost auditor" means a Cost Accountant in practice, as defined in clause (b), who is appointed, by the Board. This definition is given under \_\_\_\_\_.
  - a) Rule 2(a)
  - b) Rule 2(b)
  - c) Rule 2(c)
  - d) None of the above
2. A person shall be punishable for first time conviction for falsely claiming to be a member with fine which may extend to rupees \_\_\_\_\_.
  - a) ₹ 1,000
  - b) ₹ 2,000
  - c) ₹ 3,000
  - d) ₹ 5,000
3. There are to the Act clarifies or indicates that the schedules provide an illustrative list of acts and omissions constituting "professional or other misconduct"
  - a) two schedules
  - b) three schedules
  - c) four schedules
  - d) five schedules
4. Copy of Cost Audit Report need not be submitted to \_\_\_\_\_.
  - a) Central Government
  - b) Board of Directors of the Company
  - c) Members at Annual General Meeting of the Company
  - d) Income Tax Officer along with the Income tax Return

#### - ANSWERS -

1. c) Rule 2(c)
2. a) ₹ 1,000

Being a member of the Institute, but not having a certificate of practice, represents that he is in practice or practices as a cost accountant, shall be punishable on first conviction with fine which may extend to one thousand rupees.

3. a) two schedules

As per section 22 of the Cost and Works Accountants Act, 1959 there are two schedules to the Act clarifies or indicates that the schedules provide an illustrative list of acts and omissions constituting - professional or other misconduct.

4. c) Members at Annual General Meeting of the Company.

The shareholders and the general public have no access to the Cost audit Report unlike the Financial Audit Report. Cost Audit Report is treated as a confidential document as it contains vital information which if divulged would affect competitiveness of trade and business of the company whose information is so divulged.

## Chapter 8: Overview of Cost Auditing Standards

### Objective Type Questions

#### MULTIPLE CHOICE QUESTION

Choose the correct option among four alternative answer and justify your answer:

1. Cost Auditing Standards deals with the of the cost auditor.
  - a) Efficiency
  - b) Effectiveness
  - c) Qualifications
  - d) Responsibility
2. Cost auditing standards, preface to the standards on auditing, quality control review and related services rendered by the cost accountant has been issued by \_\_\_\_\_.
  - a) ICAI
  - b) ICMAI
  - c) CAASB
  - d) ICWAI
3. The Cost Auditing Standard 101 deals with \_\_\_\_\_.
  - a) Cost Audit Documentation
  - b) Planning an audit of Cost Statements
  - c) Knowledge of business, its processes and the business
  - d) Overall objectives of the independent cost auditor
4. Requirements of CAS – 104, the cost auditor shall \_\_\_\_\_.
  - a) Comply with the relevant ethical requirements
  - b) Have adequate level of understanding of the knowledge of business
  - c) Prepare audit documentation
  - d) None of the above.
5. The procedures followed by the cost auditor to reduce the audit risk to an acceptable level will not detect a misstatement that exists and that could be material is \_\_\_\_\_.
  - a) Inherent risk.
  - b) Detection risk.
  - c) Control risk.
  - d) None of the above.
6. Overall Objectives of the independent Cost Auditor and conduct of an Audit in accordance with Cost Auditing Standard is dealt in \_\_\_\_\_.
  - a) Cost Auditing Standard 101
  - b) Cost Auditing Standard 102
  - c) Cost Auditing Standard 103
  - d) Cost Auditing Standard 104
7. Cost Audit Documentation is dealt in the \_\_\_\_\_.
  - a) Cost Auditing Standard 101
  - b) Cost Auditing Standard 102
  - c) Cost Auditing Standard 103
  - d) Cost Auditing Standard 104
8. As per the Cost Auditing Standard 101, the risk of Material Misstatements has two components, viz., \_\_\_\_\_.
  - a) Inherent Risk and Control Risk
  - b) Detection Risk and Audit Risk
  - c) Material Risk and Implicit Risk
  - d) Financial Risk and Explicit Risk
9. Cost Auditing Standard 103 deals with \_\_\_\_\_.
  - a) Planning an Audit of Cost Statements
  - b) Cost Audit Documentation
  - c) Knowledge of process and business
  - d) Overall objectives of the Independent

## Cost Auditor

10. Audit Working Papers are property of -
- Government
  - Company
  - Auditor
  - Public

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**- ANSWERS -**

1. (d) Responsibility

Cost Auditing Standards are framed by the CAASB of The Institute of Cost Accountants of India to set out the responsibilities of a Cost Auditor and serve as a guide for conduct of the audit.

2. (c) CAASB

While formulating the Standards, the Cost Audit & Assurance Standards Board [CAASB] takes into consideration the applicable laws, usage and business environment prevailing in India. CAASB also takes into account the relevant provisions of Cost and Works Accountants Act, Rules and Regulations, Code of Professional Ethics, Cost Accounting Standards and other Statements issued by the Institute of the Cost Accountants of India.

3. (b) Planning an audit of Cost Statements

Cost Auditing Standard 101 deals with the auditors' responsibility to plan an audit of cost statements, records and other related documents. The auditor shall prepare and document the overall audit strategy and audit plan.

4. (b) Have adequate level of understanding of the knowledge of business

5. (b) Detection risk

'Detection risk' is the risk that the cost auditor will not detect a misstatement that exists in an assertion that could be material, either individually or when aggregated with other misstatements. Detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor.

6. (c) Cost Auditing Standard 103.

Cost Auditing Standard 103 deals with the overall objectives of the independent cost auditor, the nature and scope of a cost audit and independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with cost auditing standards. It also explains the requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the cost auditing standards.

7. (b) Cost Auditing Standard 102.

Cost Auditing Standard 102 deals with the Cost Auditor's responsibility to prepare audit documentation for the audit of cost statements, records and other related documents.

8. (a) Inherent Risk and Control Risk

As per the Cost Auditing Standard (SCA-101) on Planning an Audit of Cost Statements, the risk of material misstatement has two components, viz., Inherent Risk and Control Risk.

9. (d) Overall objectives of the Independent Cost Auditor

This Standard on Auditing deals with the overall objectives of the independent cost auditor, the nature and scope of a Cost audit the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with Cost Auditing Standards. It also explains the requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the Cost Auditing Standards.

10. (c) Auditor

Audit working papers are the documents which record all audit evidence obtained during audit. Such documents are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant Cost Auditing Standards. (Cost Auditing Standard 102 on Cost Audit documentation)

## Chapter 9: Filing of Cost Audit Report to MCA

### Objective Type Questions

#### FILL IN THE BLANKS

1. XBRL is a language based on \_\_\_\_\_ (XML family of languages)
2. Costing Taxonomy is best defined as a \_\_\_\_\_ (dictionary)

#### MULTIPLE CHOICE QUESTION

Choose the correct option among four alternative answer and justify your answer:

1. XBRL technical term for a table
  - a) Hypercube
  - b) Imputed Value
  - c) Fact
  - d) Item
2. XBRL is a language based on
  - a) XBL family of languages.
  - b) XRL family of languages.
  - c) XML family of languages
  - d) XGL family of languages.
3. In XBRL Format process of determining the elements that correspond to lines and columns in a financial statement and which elements must be created by extension is:
  - a) Mapping
  - b) Label
  - c) Hierarchy
  - d) Scaling
4. Within a period of \_\_\_\_\_ days, company shall file a copy of the cost audit report to the Central Government.
  - a) 30 days
  - b) 45 days
  - c) 60 days
  - d) 90 days
5. The length of Corporate Identity Number (CIN) is \_\_\_\_\_.
  - a) 13
  - b) 15
  - c) 21
  - d) 24
6. The length of Service Request Number (SRN) is \_\_\_\_\_.
  - a) 8
  - b) 9
  - c) 10
  - d) 11
7. The length of Permanent Account Number (PAN) is \_\_\_\_\_.
  - a) 9
  - b) 10
  - c) 11
  - d) 12
8. \_\_\_\_\_ of the Annexure to the Cost Audit Report of Companies (Cost Records and Audit) Rules, 2014 indicates the details of Quantitative Information.
  - a) Part A, Para 1
  - b) Part A, Para 2
  - c) Part A, Para 3
  - d) Part A, Para 4

9. In form \_\_\_\_\_, company shall file the cost audit report to Central Government.
- CRA-1
  - CRA-2
  - CRA-3
  - CRA-4
10. Once the instance document is successfully validated from the tool, the next step is to \_\_\_\_\_
- download XBRL validation tool
  - pre-scrutinize the validated instance document
  - Convert to PDF and verify the contents of the instance document
  - attach instance document to the Form CRA-4
11. Costing Taxonomy is best defined as a \_\_\_\_\_.
- Dictionary
  - Made Easy
  - Tax Ready Reckoner
  - Referencer

### - ANSWERS -

- (a) Hypercube.  
This is as per XBRL glossary of terms. Several technical terms are used, that have specific meanings, in the context of using XBRL.
- (c) XML family of languages  
XBRL belongs to Extensible Markup Language family. It has been defined specifically to meet requirements of business and financial information
- (a) Mapping.  
This is as per XBRL glossary. Several technical terms are used, that have specific meanings, in the context of using XBRL.
- (a) 30 days  
Rule 6(6), of the Companies (Cost Records and Audit) Rules, 2014, as amended by the Companies (Cost Records and Audit) Amendment Rules, 2016, within a period of thirty days, company shall file a copy of the cost audit report to the Central Government.
- (c) 21  
Corporate Identity Number or Company Identification Number (CIN) is a unique 21 digit alphanumeric number which is assigned by the ROC (Registrar of Companies).
- (b) 9  
A Service Request Number (SRN) is nine character alphanumeric strings, which starts with a letter followed by eight numerical numbers. Companies who have filed multiple Form 23C in respect of multiple cost auditors will be required to provide the SRN Numbers against each Form 23C filed.
- (b) 10  
Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued by the Income Tax Department of India. PAN is unique to an individual or entity and it is valid across India.
- (d) Part A, Para 4  
Part-A, Para 4 of the Annexure to the Cost Audit Report of Companies (Cost Records and Audit) Rules, 2014 require reporting of Net Operational Revenue of every CETA Heading separately comprised in the Total Operational Revenue as per Financial Accounts. The quantitative

information and abridged cost statements will have to be provided for each unique combination of CETA Heading and UOM of the Products which are covered under cost audit.

9. (d) CRA-4

Rule 6(6), of the Companies (Cost Records and Audit) Rules, 2014, as amended by the Companies (Cost Records and Audit) Amendment Rules, 2016, within a period of thirty days, company shall file a copy of the cost audit report to the Central Government, in Form CRA-4 in XBRL format.

10. (b) pre-scrutinize the validated instance document

Once the instance document is successfully validated from the tool, the next step is to pre-scrutinize the validated instance document with the help of the same tool using a working internet connection.

11. (a) Dictionary

Cost Taxonomy is a Dictionary of all cost elements required in the Cost Audit Report and Compliance Report.

## Chapter 10 : Internal Control, Internal Audit & Operational Audit

### Objective Type Questions

#### FILL IN THE BLANKS

1. \_\_\_\_\_ of Companies Act 2013 deals with Internal Audit. (**Section 138**)
2. An audit programme is a \_\_\_\_\_ plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and the estimated time required. (**detailed**)
3. An audit report is a \_\_\_\_\_ where internal auditor summarizes his/her work on an audit and reports its findings and recommendations based on that work. (**formal document**)
4. Section 17 (2) of the \_\_\_\_\_ specifically requires the auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society. (**Co-operative Societies Act, 1912**)
5. Field Balance Sheet Approach to audit can be applied in audit of \_\_\_\_\_ (**Self-help Group**)
6. The Local bodies in India are broadly classified into \_\_\_\_\_ categories. (**two**)
7. Audit of government \_\_\_\_\_ is one of the major components of government audit conducted by the office of C & AG. (**Expenditure**)
8. Under 'propriety audit', the auditors try to bring out cases of \_\_\_\_\_ expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. (**improper, avoidable, or in fructuous**)
9. Statutory corporations created \_\_\_\_\_ statutes (**specific**)
10. The auditor of a government company is appointed by the \_\_\_\_\_ (**C&AG**)

#### TRUE OR FALSE

1. Internal Auditing is one time activity. (**False. It is a continuous and systematic process of examining and reporting the operations and records of a concern.**)
2. Internal Audit can be performed by employees of an organization. (**True. Internal audit is a management tool performed by employees of the organization or external agencies specially assigned for this purpose.**)
3. Internal Audit is not discussed in Companies Act 2013 (**False. Internal Audit is discussed in Section 138 of Companies Act 2013**)
4. Internal audit is applicable for every listed company. (**True. As per Rule 13 Of Companies (Accounts) Rules, 2014, every listed company has to appoint internal auditor.**)
5. Internal control system can be classified in three types. (**True. Preventive Control, Detective Control and Corrective Control.**)

6. There is no requirement of Audit Working Papers while conducting audit and they only result in loss of time. **(False. Audit working papers are the record of the planning and execution of the audit engagement. Auditors retain a set of working papers for each audit engagement for each year.)**
7. Audit working papers are property of the company. **(False. Working papers are the property of the auditor.)**
8. Co-operative Society's auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society while conducting internal audit. **(True. Section 17 (2) of the Co-operative Societies Act, 1912 specifically requires the auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society.)**
9. Internal control is very essential in maintenance of Hotel Accounts. **(True. Pilferage is one of the greatest problems in any hotel and it is extremely important to have a proper internal control to minimize the leakage.)**
10. Every listed Company should have Audit Committee. **(True. The Board of directors of every listed company and the certain classes of companies, as prescribed under Rule 6 of Companies (Meetings of Board and its powers) Rules, 2014 shall constitute an Audit Committee.)**

### MULTIPLE CHOICE QUESTION



Choose the correct option among four alternative answer and justify your answer:

1. One of the major components of government audit is/are
  - a) Government Revenue
  - b) Union Budget and Control
  - c) Government Expenditure
  - d) Taxation and Fiscal Policies
2. There is no requirement of Audit Working Papers while conducting audit and they only result in loss of time.
  - a) The Statement is Correct
  - b) The Statement is Incorrect
  - c) The Statement is Incomplete
  - d) None
3. Aspects may be taken into consideration for proper inventory control
  - a) Maximum, minimum and reorder level fixation
  - b) Fixed order quantity system and different replenishment systems.
  - c) Fast moving, slow moving and non-moving analysis etc.
4. Qualities of good Internal Auditor are/is
  - a) Right Attitude
  - b) Technical Expertise
  - c) Communication and other soft skills.
  - d) All of the above.
5. NGO(s) are incorporated under
  - a) Societies Registration Act, 1860
  - b) India Trust Act, 1882
  - c) As Section 8 Company
  - d) All of the above.
6. Who can be appointed as Internal Auditor as per the Companies Act, 2013
  - a) A Chartered Accountant
  - b) A Cost Accountant
  - c) Such other professional
  - d) All of the above
7. The management auditor shall consider in

the evaluation of capacity utilization –

- a) Method of measuring base machine capacity
  - b) Capacity measurement is based on "capital output ratio" or sundry other factors.
  - c) Technical terminology like licensed capacity, installed capacity, rated capacity etc. should be properly defined.
  - d) All of the above.
8. An audit of or for a government agency is composed of
    - a) Financial compliance
    - b) Economy and efficiency
    - c) Program results.
    - d) All of the above.
  9. Internal Audit is
    - a) One time activity
    - b) A continuous activity
    - c) Half yearly
    - d) None of above
  10. Which section of Companies Act deals with Internal Audit
    - a) Section 138
    - b) Section 148
    - c) Section 139
    - d) Section 192
  11. Internal control system can be comprised of
    - a) Preventive Control
    - b) Detective Control
    - c) Corrective Control
    - d) All of the above
  12. Internal Audit can be performed by
    - a) Employee of the Organization
    - b) External Agencies
    - c) Management itself
    - d) Both a. and b.
  13. C & AG has right to direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as per section
    - a) 44AB of income Tax
    - b) 143 of the Companies Act, 2013
    - c) 173 of the Companies Act, 2013
    - d) 134 of the Companies Act, 2013
  14. Non-Governmental Organizations can be incorporated as a company
    - a) Section 25 of the Companies Act, 1956.
    - b) Section 8 of the Companies Act, 2013.
    - c) Section 28 of the Companies Act, 2013.
    - d) None of the above
  15. Under 'propriety audit', the auditors try to bring out what type of expenditure:
    - a) Improper
    - b) Avoidable
    - c) In fructuous
    - d) All of the above
  16. What is the first step to conduct Hospital Audit?
    - a) Check the letter of appointment
    - b) Study Trust Deed
    - c) Examine Records
    - d) Physical Verification
  17. Co-operative Auditor has to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society while conducting internal audit as per
    - a) Section 17(3) of the Cooperative Societies Act, 1912
    - b) Section 17(2) of the Cooperative Societies Act, 1912
    - c) Section 17(5) of the Cooperative Societies Act, 1912
    - d) Section 37(2) of the Cooperative Societies Act, 1912

18. \_\_\_\_\_ States about the audit of accounts of Municipalities.
- Article 243Z of the Constitution
  - Article 243J of the Constitution
  - Both a. and b.
  - None of the above
19. Who appoint the auditor for Government Company?
- Board of Directors
  - Audit Committee.
  - C&AG
  - CBDT
20. The government also engages in commercial activities and for the purpose it may incorporate \_\_\_\_\_ type of entities.
- Five
  - Three
  - Many
  - Various.
21. Financial Administration of Local Bodies includes
- Budgetary Procedure
  - Expenditure Control
  - Accounting System
  - All of the above
22. Field Balance Sheet Approach to audit can be applied in case of audit of the
- Co-Operative societies
  - Local Body Corporate
  - Self-Help Group
  - Club
23. Constitution of Audit Committee by the Board of Directors is mandatory for \_\_\_\_\_.
- all companies
  - all listed companies only
  - all listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only
  - all public companies having turnover of ₹100 crore or more only
24. Operational Audit can lead to better management with the focus on \_\_\_\_\_.
- Transaction-based analysis for Fraud Prevention
  - Compliance of Rules
  - Risk Identification, Process Improvement
  - Budget Monitoring
25. Propriety Audit in the context of Government Audit seeks to ensure that \_\_\_\_\_.
- public money are not spent for the benefit of a particular person
  - public officer should exercise same vigilance as in respect of expenditure of his/her own money
  - no authority should pass an order which will be directly or indirectly to its own advantage
  - All the above
26. Operational Audit is a \_\_\_\_\_ Level Management Audit.
- Macro
  - Micro
  - Depends on situation
  - None of the above
27. \_\_\_\_\_ is sometimes defined as an extension of Financial Audit.
- Internal Audit
  - Management Audit
  - Operational Audit
  - Propriety Audit
28. The first step in audit of Educational Institutions \_\_\_\_\_.
- Read through the minutes of the meetings of the Managing Committee or Governing Body
  - Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund
  - Verify the annual statements of accounts

- d) To examine the Trust Deed or Regulations
29. Internal Auditing is:
- a) One time activity
- b) Two Time activity
- c) Bi-annual activity
- d) Continuous process.

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**- ANSWERS -**

**1. (d) Government Expenditure**

Audit of Government Expenditure is one of the major components of government audit conducted by the office of C & AG.

**2. (b) The Statement is Incorrect**

Audit working papers are the record of the planning and execution of the audit engagement. Auditors retain a set of working papers for each audit engagement for each year.

**3. (d) All of the above**

The following aspects may be taken into consideration for proper inventory control –

1. Maximum, minimum and reorder level fixation
2. VED analysis
3. Just-in time (JIT) purchasing
4. Fast moving, slow moving and non-moving analysis.

**4. (d) All of the above.**

According to 'Technical Guide on Internal Auditing' by The Institute of Cost Accountants of India, Internal Auditor should have following three traits:

- Technical Expertise
- Right Attitude
- Communication and other soft skills.

An Internal Audit team has to have representation from diverse professional fields in order to understand the organization better.

**5. (d) All of the above.**

Non-Governmental Organizations (NGO) are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of India. NGO's can also be incorporated as a company under section 8 of the Companies Act, 2013.

**6. (d) All of the above.**

As per Section 138 of the Companies Act, 2013 an internal auditor, shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

**7. (d) All of the above.**

Yes, the management auditor shall consider the following points in the evaluation and measurement of capacity utilization.

8. (a) All of the above.  
An audit of or for a government agency is composed of three elements are as under
1. Financial compliance,
  2. Economy and efficiency, and
  3. Program results.
- The typical definition of a financial audit would not include elements 2 and 3. These are operational auditing techniques.
9. (b) A continuous activity.  
Internal Audit is a continuous and systematic process of examining and reporting the operations and records of a concern.
10. (a) Section 138 of the Companies Act 2013  
Section 138 of the Companies Act 2013 deals with provisions of Internal Audit.
11. (d) All of the above.  
Internal control system can be classified in three types Preventive Control, Detective Control and Corrective Control
12. (d) Both a. and b.  
Internal audit is a management tool performed by employees of the organization or external agencies specially assigned for this purpose.
13. (b) Section 143 of the Companies Act, 2013  
The C&AG have powers under section 143 of the Companies Act, 2013 as follows:  
To direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as such;
14. (b) Section 8 of the Companies Act, 2013.  
Non-Governmental Organisations are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of India. NGO's can also be incorporated as a company under section 8 of the Companies Act, 2013.
15. (d) All of the above.  
Under 'propriety audit', the auditors try to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations
16. (a) Check the letter of appointment.  
Check the letter of appointment to ascertain the scope of responsibilities.
17. (b) Section 17 (2) of the Co-operative Societies Act, 1912  
Section 17 (2) of the Co-operative Societies Act, 1912 specifically requires the auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society.
18. (a) Article 243Z of the Constitution.

Article 243J of the Constitution states that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts.

Article 243Z of the Constitution states about the audit of accounts of Municipalities. The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts.

19. (c) C&AG.

The auditor of a government company is appointed by the C&AG.

20. (b) Three.

The government also engages in commercial activities and for the purpose it may incorporate following types of entities:

- a. Departmental enterprises engaged in commercial and trading operations.
- b. Statutory corporations created by specific statues such as LIC, Air India, etc.
- c. Government companies, set up under the Companies Act, 2013.

21. (d) All of the above.

Financial Administration of Local Bodies has three components Budgetary Procedure, Expenditure Control and Accounting System.

22. (c) Self-Help Group.

Field Balance Sheet Approach to audit can be applied in case of audit of the Self-Help Group. The auditor prepares the Field Balance Sheet for the group, as on the date of the audit, based on the SHG's internal records and then cross checks the correctness of balance sheet items. The primary objective is to ascertain the retained earnings of the SHG.

23. (c) All listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only

The Rule covers all listed companies, public companies having capital of ₹10 crore and more, annual turnover of ₹100 crore and more, outstanding deposits, loans and borrowings of ₹50 crore or more.

24. (c) Risk identification, process improvement:

The objective is to assist the organization in performing functions more effectively and economically with focus on efficiency and effectiveness of operations, giving an early warning system for detection of potentially destructive problems.

25. (d) All the above

The objective of Propriety Audit is that public money is not spent for the benefit of a particular person. Public officer should exercise same vigilance as in respect of expenditure of his/her own money and no authority should pass an order which will be directly or indirectly to its own advantage.

26. (b) Micro

The objective of operational audit is to appraise the effectiveness and efficiency of a division, activity, or operation of the entity in meeting organizational goals.

27. (c) Operational Audit

An operational Audit is sometimes defined as an extension of a Financial Audit. The objective of Operational Audit is to assist the organization in performing functions more effectively and

economically with focus on the efficiency and effectiveness of operations.

28. (d) To examine the Trust Deed or Regulations

The first step in audit of Educational Institutions Examine is to examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed thereunder.

29. (d) Continuous process. It is a continuous and systematic process of examining and reporting the operations and records of a concern.

## Chapter 11 : Basics of Management Audit

### Objective Type Questions

#### FILL IN THE BLANKS

1. Management audit requires \_\_\_\_\_ approach. **(inter-disciplinary)**
2. ISO 9000 certification is an \_\_\_\_\_ service. **(assurance)**
3. Corporate objectives represent the \_\_\_\_\_ for the organization as laid down by itself. **(charter.)**
4. The two techniques available for Social Cost Benefit Analysis are \_\_\_\_\_ and \_\_\_\_\_. **(UNIDO, Little and Mirrlee's Approach.)**
5. Energy audit means the monitoring of energy efficiency of different \_\_\_\_\_ and \_\_\_\_\_ in a plant. **(equipment, process)**
6. The main emphasis of Management Audit is problem \_\_\_\_\_ rather than problem \_\_\_\_\_. **(identification, solving)**
7. Management Audit can be a \_\_\_\_\_ for managerial control. **(potent tool)**
8. \_\_\_\_\_ cannot be delegated. **(Responsibility)**

#### TRUE OR FALSE

1. There are no fixed items of evidence to be checked by Management Auditor. **(True. A Management Auditor has to rely more on his experience and acumen to identify areas of review.)**
2. Dumping is an 'illegal' practice. **(False. Dumping is an 'unfair' practice.)**
3. Assurance engagements involve three separate parties. **(True. The parties are a public accountant in practice, a responsible party and intended users.)**
4. The main emphasis of Management Audit is problem identification rather than problem solving. **(True. Management Audit pinpoints the areas requiring attention of management, it evaluates the existence of well defined objectives, it seeks to review appraise and evaluate the corporate plans and policies based on certain standards of objectivity.)**
5. Zero base budget(ZBB) system was modeled by Peter A. Woodcock. **(False. ZBB System was modeled by peter A. Phyrh.)**
6. There is no need for Management Audit Programme. **(False. Management Audit Programme is prerequisite to conduct audit and help the auditor to cover the entire area of function thoroughly.)**
7. Management Audit is voluntary **(True. It is undertaken by Management as it helps in effective functioning of every area of operations coming under management perview.)**
8. Important point in Corporate planning is SWOT analysis. **(True. A SWOT-strengths, weaknesses,**

**opportunities and threats analysis can help identify and understand key issues affecting the business)**

9. Management Audit Report is to be submitted to Cost Audit Branch. **(False. Management Audit Report is to be presented to the Management.)**
10. The concept of Financial Audit was developed by T. G Rose. **(False. T. G. Rose developed the concept of Management Audit as a logical system of evaluating the quality of Management.)**



### MULTIPLE CHOICE QUESTION

Choose the correct option among four alternative answer and justify your answer:

1. Management audit \_\_\_\_\_ on financial matters.
  - a) Involves
  - b) Only concentrate
  - c) Does not concentrate
  - d) None of these
2. Management audit is the unique process of the performance of directors, managers or the performance of Management.
  - a) Appraising
  - b) Calculating
  - c) Auditing
  - d) Planning
3. The main emphasis of Management Audit -
  - a) Problem solving
  - b) Problem identification
  - c) Problem definition
  - d) Problem avoidance
4. Management audit is normally presumed to be a \_\_\_\_\_ into a performance of a manager or group of managers.
  - a) Routine investigation
  - b) Non-routine investigation
  - c) Auditing
  - d) None of these
5. T.G Rose developed the concept of:
  - a) Cost Audit
  - b) Internal Audit
  - c) Management Audit
  - d) Financial Audit

### - ANSWERS -

1. (c) Does not concentrate
2. (a) Appraising
3. (b) Problem identification.

Management Audit pinpoints the areas requiring attention of management. It evaluates the existence of well defined objectives. It seeks to review appraise and evaluate the corporate plans and policies based on certain standards of objectivity.

4. (b) Non-routine investigation

Unlike internal and concurrent audits, management audit is a non routine investigation to appraise and evaluate the performance of management.

5. (c) Management Audit

T.G Rose developed the concept of Management Audit as a logical system of evaluating the quality of Management.

## Chapter 12 : Management Audit in different Functions

### Objective Type Questions

#### FILL IN THE BLANKS

- Corporate objectives represent the \_\_\_\_\_ for the organization as laid down by itself. (**charter.**)
- A corporate development audit is an \_\_\_\_\_ study of organisation's capabilities. (**independent, objective**)
- "Personnel Management" is that part of management function which is primarily concerned with the \_\_\_\_\_ within an organization. (**human relationship**)
- \_\_\_\_\_ is the evaluation of every resources declared in the industry. (**Productivity Analysis.**)
- A corporate development audit is an \_\_\_\_\_ study of organisation's capabilities. (**independent, objective**)
- \_\_\_\_\_ is the evaluation of every resources declared in the industry. (**Productivity Analysis.**)

#### MULTIPLE CHOICE QUESTION

Choose the correct option among four alternative answer and justify your answer:

- Assurance engagements involve
  - Only Individual Parties
  - Three separate parties
  - Contractor and Contractee
  - None of them
- The consumer service audit critically examines:
  - Outstanding payment of consumers.
  - Price consumers are ready to pay for particular product/service
  - And appraise management of business enterprise of responsibility towards consumers.
  - Demand of a product by consumers.
- Consumer Service Audit is part of
  - Business Activity Audit
  - Social Audit
  - Service Audit
  - None of Above
- There are no fixed items of evidence to be checked by Management Auditor
  - The statement is true
  - The statement is false
  - The statement is partly true
  - The statement is partly false.
- Management Audit Report Submitted to:
  - Cost Audit Branch
  - Audit Committee
  - Central Government
  - Management of Concern
- Zero base budget(ZBB) system was modeled by
  - Peter A. Woodcock
  - Peter A. Phyrh
  - P F Ducker
  - None of them
- Efficiency Audit ensures \_\_\_\_\_ return

- on Capital Employed.
- optimum
  - maximum
  - minimum
  - average
8. Who is the developer of Management Audit.
- T. G. Rose
  - T. G. Tailors
  - M. C. Sukla
  - None of them
9. Important point in Corporate planning is
- Time and Work Study
  - Imposing Control System
  - Forecasting and goal setting
  - SWOT analysis
10. \_\_\_\_\_ Analysis is evaluation of every resources declared in the industry.
- Capacity
  - Energy
  - Productivity
  - Efficiency
11. The audit of data or information, depicting social performance of a business in contrast to its normal economic performance as measured in financial audit, is -
- Energy Audit
  - Efficiency Audit
  - Social Audit
  - Propriety Audit

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### - ANSWERS -

1. (b) Three separate parties.  
The parties are a public accountant in practice, a responsible party and intended users.
2. (c) and appraises management of a business enterprise of responsibility towards consumers.  
Consumer Services Audit is an appraisal on the availability of a company's products to consumers in right quantity, right price, right place and right time.
3. (b) Social Audit.  
Consumer Service Audit is an audit of public responsibility of business enterprise in relation to its customers and is a part of social audit. The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services.
4. (a) The statement is true.  
A Management Auditor has to rely more on his experience and acumen to identify areas of review. There are no fixed items of evidence to be checked by Management Auditor.
5. (d) Management of concern.  
Management audit undertakes examination of the effectiveness of management in controlling the total activities of the organization in the accomplishment of the organization objectives.
6. (b) Peter A. Phyrh.  
Zero base budget (ZBB) System was modeled by Peter A. Phyrh.
7. (a) Optimum.  
The main purpose of Efficiency Audit is to ensure —  
That every rupee invested in capital or in other fields give optimum returns, and The balancing investment between different functions and aspects designed to give optimum results.

## 8. (a) T. G. Rose

T. G. Rose developed the concept of Management Audit as a logical system of evaluating the quality of Management.

## 9. (d) SWOT analysis

A SWOT - strengths, weaknesses, opportunities and threats analysis can help identify and understand key issues affecting the business.

## 10. (c) Productivity

The Productivity audit is basically an analysis of the productivity of the resources deployed by any organization. It is generally done to generate information about the status of productivity in the organization for the purpose of determining the scale of efficiency and effectiveness of 'resource utilization'.

## 11. (c) Social Audit

Social Audit is generally defined to be the audit of data or information depicting social performance of a business in contrast to its normal economic performance as measured in financial audit. A lot of research and experimentation have been conducted to devise techniques or models, which can measure the contribution of an enterprise to the Society.

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