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BASICS OF COST AUDIT

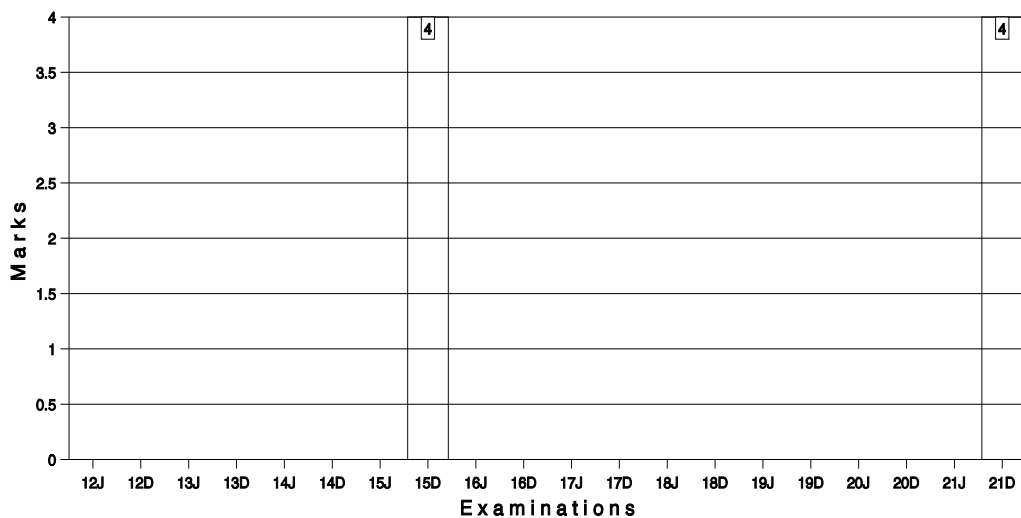
THIS CHAPTER INCLUDES

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| <ul style="list-style-type: none">• Nature of Cost Audit• Origin of Cost Audit• Genesis of Cost Audit• Relevance of Cost Audit | <ul style="list-style-type: none">• Objectives of Cost Audit• Legal Framework of Maintenance of Cost Records and Cost Audit |
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Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective Short Notes Distinguish Descriptive Practical



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CHAPTER AT A GLANCE

1. Nature of Cost Audit

Cost audit involves an examination of cost books, cost accounts, cost statements and subsidiary and prime documents with a view to satisfying the auditor that these represent true and fair view of the cost of production. This includes the examination of the appropriateness of cost accounting system.

2. Origin of Cost Audit

In India, methods and techniques of cost accounting and audit of cost accounts can be traced back to pre-independence era when a large number of firms were given contracts by the Government of India on cost plus basis. The Government then started verifying and investigating into the cost structure of such firms. This trend continued on a large scale during World War ii that led to the recognition of cost as a distinct concept not only in India but also in the industrial economies of the world.

3. Genesis of Cost Audit

In the mid-fifties, famous case of corporate frauds in Dalmia-Jain companies virtually jolted the then Government. It resulted in the government

appointing Vivian Bose Commission and later the Dutta Commission and Daphtary-Sastri Committee. These Commissions/ Committees observed inadequacies in the then existing system of financial accounting and audit and also in the then existing system of corporate disclosures. They recommended a more effective system of cost accounting and cost audit, to supplement the financial accounting and auditing practices.

4. Relevance of Cost Audit

In the initial years, cost audit was taken merely as a tool for 'price control mechanism' for consumer and infrastructure industries in India. The main objective of cost audit when statutorily introduced under the provisions of the Companies Act, 2013 was to meet the government requirements for regulating the price mechanism in some core industries.

5. Objectives of Cost Audit

- Ensuring that the prescribed procedures of 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.
- Inculcation of cost consciousness.

6. Cost Accounting Standards

Cost Accounting Standards are set of standards that are designed to achieve uniformity and consistency in cost accounting principles and practices.

The Institute of Cost Accountants of India, recognising the need for

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structured approach to the measurement of cost in manufacture or service sector and to provide guidance to the user organisations, government bodies, regulators, research agencies and academic institutions to achieve uniformity and consistency in classification, measurement and assignment of cost to products and services, has constituted Cost Accounting Standards Board (CASB) with the objective of formulating the Cost Accounting Standards.

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 organizations, government bodies, regulators, research agencies and academic institutions.

DESCRIPTIVE QUESTIONS

2015 - Dec [1] Answer the question:

- (b) (i) What are the duties of the companies in relation to provisions of Section 148 of the Companies Act, 2013 and Rules framed thereunder? **(4 marks)**

Answer:

1. Every company specified under Rule 3 and Rule 4 (thresholds limits) of the Companies (Cost Records and Audit) Rules, 2014 shall appoint a

- cost auditor within 180 days of Commencement of every financial year.
2. Inform the cost auditor concerned of his appointment.
 3. According to Section 148 of Companies Act, 2013 a company shall within thirty days from the date of receipt of a copy of the cost audit report prepared in pursuance of a direction under sub-section(2) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.

If after considering the cost audit report referred to under this section and the information and explanation furnished by the company under sub- Section(6), the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by Government.

4. If any default is made in complying with the provisions of this section:
 - (a) The company and every officer of the company who is in default shall be punishable in the manner as provided in sub- section(1) of Section 147.
 - (b) The cost auditor of the company who is in default shall be punishable in the manner as provided in sub-section(2) to (5) of Section 147.

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2021 - Dec [2] What are the objectives of Cost Audit?

(4 marks) [Sec. C - Four LAQ]

Answer:

Objectives of Cost Audit:

- (i) To verify 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.
- (ii) To ensure that the prescribed procedures of cost accounting records rules are duly adhered to
- (iii) To detect errors and fraud in the Company activities
- (iv) To verify the cost of each 'Cost unit' and 'Cost Center' to ensure that these have been properly ascertained.

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- (v) To determine inventory valuation
- (vi) To facilitate fixation of prices of goods and services
- (vii) To periodically reconcile between Cost accounts and financial accounts
- (viii) To ensure optimum utilisation of human, physical and financial resources of the enterprise.
- (ix) To detect and make correction of abnormal loss of material and time
- (x) To inculcate cost consciousness
- (xi) To advise management, on the basis of inter-firm comparison of cost records as regards the areas where performance calls for improvement.
- (xii) To promote corporate governance through various operational disclosures to the directors.

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