Illustration 1.

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

(` In lakhs)

	31.03.2022	31.03.2021	31.03.2020
Net Sales	1,745	1,705	1,610
Raw Materials consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Depreciation charged to production cost centres	16	15	13
Factory overheads:			
Salaries and wages	5	4	3
Depreciation	2	2	2
Rates and Taxes	1	1	1
Other overheads	6	5	4
Administrative overheads:			
Salaries and Wages	10	9	8
Rates and Taxes	2	2	2
Other overheads	162	154	148
Selling and distribution overheads:			
Salaries and Wages	7	6	5
Packing and Forwarding	6	6	5
Depreciation	1	1	1
Other overheads	124	118	108
Interest	85	74	68
Bonus and Gratuity	12	10	9
Gross Current Assets	840	724	640
Current Liabilities and Provisions	324	305	246

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

(i) Operating Profit as percentage of Value Addition.

(ii) Value Addition as percentage of Net Sales.

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

Solution:

	Year Ending (` In lakhs)		
	31.03.22	**31.03.21**	**31.03.20**
Net sales (A)	1,745	1,705	1,610
Cost of Sales excluding depreciation & Interest			
Raw Material consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Factory overheads (excluding depreciation)	12	10	8
Administrative overheads (excluding depreciation)	174	165	158
Selling and distribution overheads (excluding depreciation)	137	130	118
Bonus and Gratuity	12	10	9
Total (B)	1,546	1,439	1,323
Operating Profit (A) - (B) =	199	266	287

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

The working will be :

	Year Ending		
	31.03.22	**31.03.21**	**31.03.20**
(X) Net sales	1,745	1,705	1,610
Less : (i) Cost of Bought Out Materials & Service (Raw Materials and Stores & Spares)	1,146	1,065	979
(ii) Power & Fuel, other bought out services	30	27	24
(iii) Over heads (excluding Salaries & Wages, Rates & Taxes and depreciation)	298	283	265
(Y) = (i) + (ii) + (iii)	1,474	1,375	1,268
Value Addition : (X) - (Y) =	271	330	342

	Year Ending		
	31.03.22	**31.03.21**	**31.03.20**
Hence,			
(a) Operating profit as % of Value Added	199/271	266/330	287/342
i.e.	73.43%	80.6%	83.92%
			= 84%
(b) Value Addition as % of Net Sales	271/1745	330/1705	342/1610
i.e.	15.53%	19.35%	21.24%

Illustration 2.

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

Year ended 31st March	2022	2021
	(Amount 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

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 March 31, 2021:

(i) Value Addition

(ii) Earnings available for Distribution

(iii) Distribution of Earnings to the different claimants.

Solution:

Sinjini Ltd.

Calculation of Value Addition

(Amount in ` lakh)

	2022	2021
Year ended March 31,		
VALUE ADDITION:		
Net Sales	4,800	3,840
Add: Export Incentives	-	-
Add/Less: Adjustment in Finished stocks	20	10
	4,820	3,850
Less: Cost of bought out input:		
(i) Cost of Raw materials consumed	1,760	1,440
(ii) Consumption of stores and spares	160	140
(iii) Power & Fuel	240	192
(iv) Other overheads	1,056	861
(430+36+260+20+250+60) = 1,056		
(370+30+220+16+200+25) = 861		
Total cost bought out input	3,216	2,633
(i) VALUE ADDED	1,604	1,217
Add: Other Income	300	200
(ii) Earnings Available for distribution	1,904	1,417
(iii) Distribution of earnings to:		
(a) Employees as salaries and wages, bonus, gratuity etc.	476	382
Directors- Salaries and Commission	48	40
(b) Shareholders as dividend	420	230
(c) Company as retained funds (including depreciation)	404	365
(d) Government as taxes		
Local Taxes:	120	100
Income Taxes	316 436	200 300
(e) Providers of Capital/Fund as Interest on Debentures		
Interest on debentures	30	30
Interest on Fixed loans from IDBI	90 120	70 100
Total distribution of earnings	1,904	1,417

Illustration 3.

The following figures are obtained from the Cost Accounting Records of Vennela Ltd. :

Year ended 31st March	2022	2021
Particulars	(Amount in ` lakhs)	
Net Sales	7,120	5,700
Other Income	450	300
Export Incentives	80	60
Increase in Value of Stock of Finished Goods	30	15
Raw materials consumed	2,640	2,160
Direct wages, salaries, bonus, gratuity etc.	660	528
Power & Fuel	360	288
Stores and spares	240	210
Other manufacturing overheads	645	555
Administrative Overheads :		
Audit fees	54	45
Salaries & commission to directors	72	60
Other overheads	390	330
Selling and distribution overheads :		
Salaries & Wages	54	45
Packing and forwarding Other overheads	30 375	24 300
Total depreciation	180	180
Interest Charges :		
On working capital loans from Bank	90	75
On fixed loans from IDBI	135	105
On Debentures	45	45
Tax paid including provisions	474	300
Dividend paid	630	345
Dividend Distribution Tax	110	60

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 March 31, 2021:

(i) Value addition

(ii) Earning available for Distribution

(iii) Distribution of Earning to the different claimants

Solution:

Annexure to Cost Audit Report:

Part D-3: Value Addition And Distribution Of Earnings (For **Vennela Ltd.** as a whole)

(Amount In ` lakhs)

SI. No.	Particulars	Current Year 2021-22		Previous Year 2020-21	
	Value Addition:				
1.	Net Sales		7120		5700
2.	Add: Export incentives		80		60
3.	Add:/ (Less) Adjustment In Finished Stocks		30		15
			7,230		5,775
	Less: Cost of bought out input:				
	(a) Cost of Raw materials consumed		2,640		2,160
	(b) Consumption of stores and spares		240		210
	(c) Power & Fuel		360		288
	(d) Other overheads		1,584		1,329
	(645+54+390+30+375+90) = 1584				
	(555+45+330+24+300+75) = 1329				
	Total cost bought out inputs		**4,824**		**3,987**
4.	Value Added:		2,406		1,788
5.	Add: Other income		450		300
6.	Add: Extra ordinary income		---		-----
7.	Earnings available for distribution		**2,856**		**2,088**
	Distribution of earnings to:				
(a)	Employees as salaries and wages, bonus, gratuity etc.		714		573
	Directors- Salaries and commission		72		60
(b)	Shareholders as dividend		630		345
(c)	Company as retained funds (including depreciation)		676		600
(d)	Government as taxes				
	Dividend Distribution Taxes	110		60	
	Income taxes paid (including provisions)	474		300	
			584		360
(e)	Providers of Capital/Fund as Interest on Debentures:				
	Interest on Debentures:	45		45	
	Interest on Fixed Loans from IDBI	135		105	
			180		150
	Total distribution of earnings		**2,856**		**2,088**

Illustration 4.

In the Financial Accounts of Chemicals & Fertilizers Ltd. for the year ended March 31, 2022 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, 2022.

Solution:

Chemicals & Fertilizers Ltd.

Reconciliation of financial profit and costing profit for the year ended March 31, 2022

Amount in ` thousand

Profit or loss as per Financial Accounts		89807.50
A. Less: Incomes not considered in Cost Accounts:		
i. Profit on sale of Fixed Assets	150	
ii. Urea & Transport Subsidy	348	
iii. Litigation Recovery-Prior year	125	
iv. Favorable Exch. Rate Variation	294	
v. Purchase tax Refund	453	
vi. Own consumption (chemicals) valuation difference (382-365)	17	(1387.00)
B. Add: Expenses not considered in Cost Accounts		
i. Expenses on CSR	56	
ii. Post-retirement medical grant	584	640.00
C. Less:		
Difference in Valuation of stock between Financial Accounts and Cost Accounts (9660-6070) (workings)		(3590.00)
Profit as per Cost Accounts		85470.50

Workings:

Current Year (2021-22) (Amount in ` thousand)

	Financial Accounts	Cost Accounts
Opening Semi finished	31700	35210
Finished	83220	78590
Total	**114920**	**113800**
Closing semi finished	35260	39420
Finished	89320	80450
Total	**124580**	**119870**
Variation in inventory	9660	6070

Increase in Difference of stock valuation towards financial accounts = `3590

Illustration 5.

Auto Parts Manufacturing Company Ltd. showed a profit for the year 2021-22 as ` 35,46,700. During the course of Cost Audit, the followings transactions were noticed:

(i) an old machine with net value of ` 6,54,000 was sold off for ` 9,30,000,

(ii) dividend income was received amounting to ` 84,500 from investments,

(iii) a sum of ` 58,000 was spent towards CSR commitment,

(iv) the company was engaged in trading activity where purchase of goods was `13,50,000 and sales was `13,42,300, after incurring ` 40,800 as expenditure,

(v) some renovation work was carried out at a cost of ` 7,75,000 and its useful life was only for five years, and

(vi) the closing inventory of raw material was undervalued ` 29,600 and that of finished goods was overvalued `65,400 in the financial records. Work out the Profit as per the Cost Accounts.

Solution:

Reconciliation of Profit between Cost Accounts and the Financial Accounts of Auto Parts Manufacturing Company Ltd. for the year 2021-22.

Particulars	`	`
Profit as per the Financial Accounts		**35,46,700**
Add: Trading Loss	48,500	
4/5th of Renovation Expenses Amortized	6,20,000	
CSR Contribution	58,000	7,26,500
Less: Profit on Sale of Assets	2,76,000	
Income from Investments	84,500	
Net overvaluation of closing inventory in the Financial records ` (65,400 - 29,600)	35,800	(-) 3,96,300
Profit as per the Cost Accounts		**38,76,900**

Illustration 6.

The profit as per financial accounts of M/s Kalingpong Himalaya Private Company for the year 2021-22 was `1,54,28,642. The profit as per Cost Accounting Records for the same period was less. You are required to prepare a reconciliation statement and arrive at the profit as per Cost Records. The following details are collected from the financial schedules and cost accounting records:

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

Solution:

Working:

Computation in difference in Valuation of Stock

	Financial Accounts	Cost Accounts
Opening (WIP & FG) Closing (WIP & FG)	2,91,09,835 4,15,35,070	3,14,84,660 4,72,61,495
	1,24,25,235	1,57,76,835

Reconciliation of Financial Profit and Costing Profit

	`	`
Profit as per Financial Accounts		1,54,28,642
Add: Difference in Stock Valuation	33,51,600	
Loss on Sale of Fixed Assets	1,22,546	
Donation not considered in Cost Records	4,85,560	
Voluntary retirement compensation not		
included in cost	16,76,540	56,36,246
		2,10,64,888
Less: Non-operating income	45,36,770	
Less: Interest income from intercorporate deposit	6,15,340	
Difference in value of cement taken for own consumption	17,534	
Difference in valuation of windmill power (`49,56,325 – 36,20,370)	13,35,955	
Insurance claim relating to previous year	14,35,620	79,41,219
Profit as per Cost Accounts		1,31,23,669

Illustration 7.

The Cost Accountant of TRINCUS TEXTILES MILLS LTD. has arrived at a Profit of ` 20,10,500 based on Cost Accounting Records for the year ended March 31, 2022. Profit as per Financial Accounts is ` 22,14,100.

As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

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

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2022.

Solution:

Reconciliation of Profit between Cost and Financial Accounts

for the year ended March 31, 2022

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

Illustration 8.

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

(i) Some Old assets sold off which fetched a profit of ` 1,25,000

(ii) Interest was received amounting to ` 45,000 from outside the business investment.

(iii) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead is ` 2,15,000 in opening W-I-P and ` 2,45,000 in closing W-I-P.

(iv) The Company was engaged in Trading activity by purchasing goods of ` 11,15,845 and selling at ` 13,12,850 after incurring ` 35,000 as expenditure.

(v) A major overhaul of machinery was carried out at a cost of ` 5,50,000 and next such overhaul will be done only after five years.

(vi) Opening stock of raw material and finished goods was overvalued for ` 2,00,000 and closing stock was overvalued ` 1,85,000 in financial records.

Work out the profit as per Cost Accounts.

Solution:

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

Particulars	`	`
Profit as per Financial Accounts		28,75,000
Add: Difference in valuation of W-I-P	30,000	
Proportionate charge i.e. four-fifth for overhaul of machinery	4,40,000	
Overvaluation of Opening Stock in the financial records	2,00,000	6,70,000
Less: Profit on sale of old assets not included in Cost A/cs	1,25,000	
Interest received from outside investment	45,000	
Trading profit not included in cost accounts	1,62,005	
Overvaluation of closing stock in the financial records	1,85,000	(-) 5,17,005
Profit as per Cost Accounts		**30,27,995**

Illustration 9.

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

(b) The financial profit and loss account for the year 2021-22 of a company shows a net profit of `29,60,000. During the course of Cost Audit, it was noticed that:

(i) The company was engaged in trading activity by purchasing goods at ` 6,00,000 and selling it for `7,50,000 after incurring repacking cost of ` 25,000,

(ii) Some discarded assets sold off with no scrap value for ` 90,000,

(iii) Some renovation of machinery was carried out at a cost of ` 6,00,000, having a productive life of five years, but entire amount was charged to financial accounts

(iv) Interest was received amounting to ` 1,40,000 from outside investments

(v) Voluntary Retirement payment of `3,50,000 was not included in the Cost Accounts,

(vi) Insurance claim of previous year was received to the extent of ` 2,50,000 but was not considered in the Cost Accounts.

(vii) Opening stock or raw materials and finished goods was overvalued by ` 2,40,000 and closing stock of finished goods was overvalued by `1,10,000 in the financial accounts, and

(viii) Donation of `80,000 towards CSR commitment was not considered in the Cost Accounts.

Work out the profit as per the Cost Accounts and briefly explain the adjustment, if any, carried out.

Solution:

(a) 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

(b) Profit Reconciliation as per Cost and Financial Records for the year 2021-22

	Particulars	**` in '000**	**` in '000**
1	Profit as per Financial Accounts for Audited Products		29,60,000
2	Less : Incomes not considered in the Cost Accounts		
	a) Trading Profit (7,50,000-6,00,000-25,000)	1,25,000	
	b) Profit on Sale of Old Assets	90,000	
	c) Interest received from Outside Investments	1,40,000	
	d) Insurance claim for previous year received	2,50,000	
	Total		(–) 6,05,000
3	Add : Expenses not considered in the Cost Accounts		
	a) Donation towards CSR Commitment	80,000	
	b) VRS Expenses	3,50,000	
	c) Renovation (4/5th Outlay of 600000)	4,80,000	
	Total		9,10,000
4	Valuation of stocks (240000-110000)(Overvaluation of opening stock and closing stock in financial accounts)		1,30,000
5	Other adjustments		—
	Profit as per the Cost Accounts		33,95,000

Solved Cases on Applicability of Rule 4 read with Rule 3 – coverage of Cost Audit under different turnover criteria

Case 1: M/s. XYZ & Co. Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ` 6 crore

Turnover of Table B Products under Rule 3 is ` 9 crore

Turnover of other products is ` 18 crore

Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 33 crore i.e. ≤ ` 35 crore. Therefore Cost Records are not required to be maintained for Table A and Table B Products.

(b) Since the Cost Records are not required to be maintained under Rule 3, the question of Cost Audit does not arise.

Case 2: M/s. ABC Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ` 7 crore

Turnover of Table B Products under Rule 3 is ` 8 crore

Turnover of other products is ` 24 crore

Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 39 crore i.e. ≥ ` 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products irrespective of individual turnover of the products.

(b) Overall Turnover is ` 39 crore i.e ≤ ` 50 crore and aggregate Turnover of the Products under Rule 3 (Table A &Table B products) is Rs. 15 Crore, which is less than the threshold limit of ` 25 crore. Since the Conditions of Rule 4(1) and 4(2) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are not fulfilled, hence Cost Audit is not applicable for products either under Table A or Table B.

Case 3: M/s. B. K. Pvt. Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ` 11 crore

Turnover of Table B Products under Rule 3 is ` 14 crore

Turnover of other products is ` 28 crore

Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 53 crore i.e. ≥ ` 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products.

(b) Overall Turnover is ` 53 crore i.e. ≥ ` 50 crore and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is ` 25 Crore. Since the conditions of Rule 4(1) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are fulfilled, therefore Cost Audit is applicable only for Table A Products.

Case 4: M/s. Sun Enterprise Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ` 19 crore

Turnover of Table B Products under Rule 3 is ` 15 crore

Turnover of other products is ` 76 crore

Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 110 crore i.e. ≥ ` 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products.

(b) Overall Turnover is `110 crore i.e. ≥ ` 100 crore and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is ` 34 Crores i.e. ≥ ` 25 Crore but ≤ ` 35 crore. Conditions of Rule 4(1) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are fulfilled and cost audit is applicable for Table A Products.

Though the overall turnover is more than ` 100 crore, aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is less than ` 35 crore [Rule 4(2)]. That is why, Table B products are not covered under cost audit.

Case 5: M/s. Alpha Pvt. Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ` 20 crore

Turnover of Table B Products under Rule 3 is ` 22 crore

Turnover of other products is ` 63 crore

Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 105 crore i.e. ≥ ` 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products.

(b) Overall Turnover is ` 105 crores i.e. ≥ ` 100 crores and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is ` 42 Crores i.e. ≥ ` 35 crores. Since the conditions of Rule 4(1) and Rule 4(2) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are fulfilled, Cost Audit is applicable for both Table A and Table B Products.

Exercise

A. Theoretical Questions

Multiple Choice Questions

1. The applicability of cost audit under Companies (Cost Records & Audit) – Rules, 2014 for regulated industries having overall annual turnover during immediate preceding financial year is_____.

   (a) `25.00 crores or more

   (b) `35 .00 crores

   (c) `50.00 crores or more

   (d) `100.00 crores

2. The Company has to upload CRA-4 electronically to the MCA under the rule_______of Companies (Cost Records & Audit) Rules, 2014

   (a) Rule 5 (1)

   (b) Rule 6 (2)

   (c) Rule 4 (6)

   (d) Rule 6 (6)

3. The form in which the cost records shall be maintained .

   (a) CRA-1

   (b) CRA-2

   (c) CRA-3

   (d) CRA-4

4. Which of the following type of Electricity Company is under the purview of regulated sector?

   (a) Engaged in Generation

   (b) Engaged in Transmission

   (c) Engaged in Distribution & Supply

   (d) All the above

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

   (a) Telecommunication

   (b) Electricity

   (c) Drugs & Pharmaceuticals

   (d) Automobile

6. Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within___________days of occurrence of such vacancy.

   (a) 30 days

   (b) 60 days

   (c) 90 days

   (d) 7 days

State True or False

1. Micro enterprise or a small enterprise or a medium enterprise as per MSMED Act, 2006, with a overall turnover of ` 37.00 crores, have been taken out of the purview of Companies (Cost Records & Audit) Rules, 2014.

2. The requirement for maintenance of cost record under the rule 3 of Companies (Cost Records & Audit) Rules, 2014 shall apply to a company whose total revenue is ` 200 crores and revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue.

3. Every cost auditor shall forward his duly signed report to the Audit Committee of the company within a period of 180 days from the closure of the financial year.

4. The tenure of Cost Auditor expires on the completion of one hundred and eighty days from the closure of the financial year.

5. Provisions of section 139, 143, 144 and 145 of the Companies Act, 2013 is applicable to Cost auditor.

Fill in the Blanks

1. Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report in form_____.

2. Company should furnish the Cost Audit report within a period of______days from the date of receipt of a copy of the cost audit report to the Central Government.

3. The cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year i.e.________September of the relevant financial year.

4. The maximum fine for default in provisions of section 148 of the Companies Act, 2013 is _______

Short Essay Type Questions

1. A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules 2014 has exempted companies operating in special economic zones from cost audit. What would be applicability of the Companies (Cost Records and Audit) Rules 2014 on such a company in respect of maintenance of cost accounting records and cost audit?

B. Practical Questions

⊙ Unsolved Case

M/s Alfa Transformers Ltd. (ATL), a listed company manufacturing transformers under CTA code 8502 is having two manufacturing location one in SEZ and other in non-SEZ area

The details of turnover of above two units for F.Y.2021-22 is as follows

1. Location SEZ ` 75.00 crores
2. Location Non - SEZ ` 30.00 crores

The Managing Director of the company seeks your opinion with regard to maintenance of cost records and cost audit with respect to both the units.

Answer:

Multiple Choice Questions

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

State True or False

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

Fill in the Blanks

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

Illustration 1.

A Company introduced a new product EZY with advanced technology in a product market where there is huge competition with many competitors having an individual market share of 5% to 10%. A survey of the present market estimates that demand will increase by 80,000 units per year. The company is presently targeting 50% of the additional market demand as competitors will need at least two years to match its product.

The Product EZY passes through three departments. Direct cost per unit of product at a present rate: Material cost ` 65 and Labour Cost ` 45. Overheads are absorbed based on normal capacity. The following relevant information is given:

Production Dept	Unit of Measurement	Normal monthly capacity	Monthly Allocated Fixed Overheads (`)	Full Overhead cost Rate (`)	Hours consumed by the product
X	Machine Hour	12,500 machine hrs	` 50,000	10.50	2
Y	Direct Labour Hour	15,000 labour hrs	` 60,000	9.00	1.5
Z	Direct Labour Hour	25,000 labour hrs	` 75,000	6.00	3

The company has set a target of Selling and Distribution costs of `3,00,000 irrespective of sales volume. The company normally sets a price by adding a mark-up on costs between 30% to 40%.

You are required to suggest the price to take care of competition from the right perspective.

Solution:

Department	Normal monthly capacity	Allocated monthly Fixed Overhead (`)	Fixed Overheads per Hour (`)	Full overhead cost per hour (`)	Variable cost per hour (`)	Fixed overhead per unit (`)	Variable overhead per unit (`)
X	12,500	50,000	4.00	10.50	6.50	8.00	13.00
Y	15,000	60,000	4.00	9.00	5.00	6.00	7.50
Z	25,000	75,000	3.00	6.00	3.00	9.00	9.00

50% of the additional demand = 80,000 × 0.50 = 40,000 unit.

Cost of the product:

Direct Material	` 65.00
Direct Labour	` 45.00
Variable Factory Overheads	` 29.50
Fixed Factory Overhead	` 23.00
Selling & Distribution Overheads (` 3,00,000 ÷ 40,000)	`7.50
Total cost	` 170.00

The Selling price will be in the range of ` (170 × 1.3) and ` (170 × 1.4) i.e., between ` 221 and ` 238.

Suggestion: The company can go for a lower price as it covers the full cost and ensures good profit. Lower price will give better penetration in the market and keep competitors away for the long term to match technology and price.

Illustration 2.

ABC Co. has two Department producing small electrical goods. New Technology for the production of X will induce the following cost:

Costs	Department-A	Department-B
Direct Material	` 240	` 200
Direct Labour Rate / Hours	` 120	` 100
Direct Labour Hours	2 Hours	3 Hours
Variable OH Per Hour	` 50	` 30
Fixed Per Hour (Based on 100% Capacity)	` 60	` 40
Value of Machine on revaluation	` 40 Lakhs	` 28 Lakhs

New Technology cost = ` 25 lakhs, working capital = ` 7 lakh

The target volume of production in the 1st year is 2000 units @ 25% capacity

Variable Selling and Distribution Cost is ` 3 lakh for 2000 units. Expected return on investment 24%.

Suggest pricing of a new product for a new one or the existing ones at 80% capacity.

Solution:

Costs	Department-A	Department-B	Total
Direct Material	240	200	440
Direct Labour	240	300	540
Variable Overheads	100	90	190
Variable Selling & Distribution Cost	-		150
Total (`)			**1320**

100% capacity = 8,000 units. 80% capacity = 6400 units

Fixed Costs = (60 × 16,000 + 40 × 24000) = ` 19.20 lakhs. Capital investment = (40+ 28+25+7) = ` 100 lakhs.

Return on investment required = ` 24 lakhs

Return required per unit = ` (19.2 + 24.0) lakhs /6400 = ` 675

Price to be charged per unit = (1320 + 675) = ` 1995

Illustration 3.

A company is operating at 60% capacity with a turnover of ` 86.40 lakhs.

(i) If the Company works at 100% capacity, the sales-cost relation is: Factory Cost is two-thirds of sales value and Prime Cost is 75% of Factory Cost.

(ii) Administrative and selling expenses (75% variable) are 20 % of sales value.

(iii) Factory overhead will vary according to operating capacity as given below:

Operating Capacity	**60%**	**80%**	**100%**	**120%**
Factory Overhead (` Lakhs)	19.80	21.60	24.00	30.00

The company has planned to operate at 80% capacity. Moreover, it has received an export orderandtheexecution of the same will involve 40 % of capacity. The prime cost of the order is estimated as ` 12.00 lakhs andthe shipping expenses involved will be ` 2.00 lakhs. Taking the same percentage of profit on the domestic sale, determinethe minimum price to be quoted for the export order.

Solution:

At 100% capacity.

Sale = 86.40 × 100/60 = ` 144 lakhs; Factory Cost =1.44 × 2/3 = ` 96 lakhs; Prime Cost = 96 × .75 = ` 72 lakhs; Factory overheads = ` 24 lakhs; Selling & Distribution Exp. = ` 28.8 lakhs; Variable S/D Exp. = ` 21.6 lakhs; Fixed S/D Exp. = `7.2 lakhs.

Particulars	**Operation 80% capacity (` Lakhs)**	**Export order 40% capacity (` lakhs)**
Prime Cost	57.60	12.00
Factory Overhead (Given)	21.60	8.40
Selling & Distribution Cost Variable	17.28	-
Selling & Distribution Cost Fixed	7.20	2.00
Total Cost of Sales	103.68	22.40
Sales Value (At 80% Capacity): 144 × 0.80	115.20	-
Profit	11.52	2.49
Profit %	10% on Sales	10% of Export Sales Value
Export Price to be Quoted		24.89

Let, Sales value = x, then Profit = $0.1x$

Then $0.9\,x = 22.40$

Hence x = ` 24.89

Illustration 4.

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

Solution:

Particulars	` Lakhs / %
Sales: 480 × 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) ×100	33.33%

Illustration 5.

ABC Ltd which is manufacturing consumer products has two divisions Assembling and Finishing. The two divisionsare operating as cost centers

(i) Present activities and costs involved in the Assembling division & Finishing division and a year:

Assembly Division:

No of sets assembled: 12,000

Manufacturing of parts (including material): ` 6.00 lakhs

Parts purchased from the market: ` 4.00 lakhs

Another Variable cost: Welding cost- ` 5 lakhs and Assembling cost- ` 9.00 lakhs

Fixed cost for the unit: ` 6 lakhs

25% of the production of the Assembly division is sold in the market for ` 300 per set and 75% is transferred to Finishing Division at ` 280

The cost incurred in Finishing Division:

Painting cost: ` 5.00 lakhs; Polishing cost: ` 1.00 lakhs; Fixed cost ` 4.00 lakhs.

The selling Price per set is ` 450.

Evaluate the following situations:

(ii) Division Assembly has proposed for expansion of their division for an enhancement of capacity by 20% for `20 lakhs. It is indicated that there will be no change in factory fixed cost in the operation of additional volume of job. Division Assembly proposes to maintain the transfer to the finishing division to the existing level and sell additional sets to market at the present price.

(iii) Division Finishing has proposed for a transfer of the whole of the output of the Assembly division for `280 per unit and the additional units can be sold in the market at the existing price which will involve advertisement expenses to the extent of ` 4.00 lakhs and fixed cost in the division will go up by ` 1.00 lakhs.

(iv) Assembly division claims that the transfer rate of ` 280 is irrational in a sense of undue favour to the Finishing divisionat their cost and the Finishing Division is given the advantage of the market price for their products whereas the Assembly division is deprived of that advantage. The Assembly division agreed to transfer the whole of its output to Finishing Division for ` 300.

You are required to give your recommendation assuming the opportunity cost of capital is 15%.

Solution:

Existing profitability of divisions & company

Particulars	Rupees in Lakhs (`)
Assembly Division	
Total Sales Value (3,000 × 300 + 9,000 × 280)	34.20
Total Variable Cost for Division (6+4+5+9)	24.00
Contribution	10.20
Fixed Cost	6.00
Profit for Division Assembly	4.20
Finishing Division	
Total Sales Value 9,000 set @ `450	40.50
Variable Cost (9,000 × 280) + 6 lakhs	31.20
Contribution	9.30
Fixed Cost	4.00
Profit for Division Finishing	5.30
Total Profit of the Company	9.50

(i) Evaluation of the proposal: Expansion of assembly division & transfer to Finishing division at existing level.

Particulars	Rupees in Lakhs (`)
Total Sales Value (5,400 × 300 + 9,000 × 280)	41.40
Total Variable Cost for Division (24 × 1.2)	28.80
Contribution	12.60
Fixed Cost + Opportunity Cost of Capital Invested (6.00 + 20 × 0.15)	9.00
Profit for division Assembly	3.60
Finishing Division	
Total Sales Value 9,000 set @ `.450	40.50
Variable Cost (9,000 × 280) + 6 Lakhs	31.20
Contribution	9.30
Fixed Cost	4.00
Profit for division Finishing	5.30
Total Profit of the Company	8.90

(ii) Evaluation of the proposal: Expansion of assembly division & transfer of whole assembly output to Finishing division for ` 280

Particulars	Rupees in Lakhs (`)
Assembly Division	
Total Sales Value (14,400 × 280)	40.32
Total Variable Cost for Division (24 × 1.2)	28.80
Contribution	11.52
Fixed Cost + Opportunity Cost of Capital Invested (6.00 + 20 × 0.15)	9.00
Profit division Assembly	2.52
Finishing Division	
Total Sales Value 14,400 Set @ `450	64.80
Variable Cost (14,400 × 280) + 6 Lakhs	46.32
Contribution	18.48
Fixed Cost + Advertisement Cost (4+4+1)	9.00
Profit for Division Finishing	9.48
Total Profit of the Company	12.00

(iii) Evaluation of the proposal: Expansion of assembly division & transfer of whole assembly output to Finishing division.

Particulars	Rupees in Lakhs (`)
Total Sales Value (14,400 × 300)	43.20
Total Variable Cost for Division (24 × 1.2)	28.80
Contribution	14.40
Fixed Cost + Opportunity Cost of Capital Invested (6.00 + 20 × 0.15)	9.00
Profit for Division Assembly	5.40
Finishing Division	
Total Sales Value 14,400 Set @ ` 450	64.80
Variable Cost (14,400 × 300) + 6 Lakhs	49.20
Contribution	15.60
Fixed Cost + Advertisement Cost (4 + 4 + 1)	9.00
Profit for Division Finishing	6.60
Total Profit of the Company	12.00

The proposal (iii) i.e., transfer of all unitsfrom Assembly to Finishing Division at a transfer price of ` 300 is recommended. With the adoption of this price, the profitability of the company as a whole will go up and each division will get its due share of profitability.

A suggestive list of Key Performance Indicators:

Annexure-I

Performance area	KPI	Measurement
Financial performance	Turnover	➢ Segmental revenue to total revenue % ➢ Segmental turnover growth % ➢ Total turnover growth % ➢ Growth % in new product sales ➢ New product sales as % of total sales ➢ Customer-wise sales ➢ Top 5 customers, bottom 5 customers' sales
	Margins	➢ Gross margin % on total sales ➢ Gross margin % on segmental sales ➢ Gross margin % on new products ➢ Customer-wise Gross margin %
	Costs	➢ Element-wise cost % to total turnover and segmental ➢ turnover ➢ Cost composition – nature-wise, variability structure, ➢ functional split
	Returns	➢ ROI on product groups ➢ ROI on geographical segments ➢ ROI on new products ➢ ROI on new markets ➢ ROCE ➢ Value added to total income ➢ Earnings per share (EPS) ➢ Dividend per share (DPS) ➢ Retention ratio ➢ Price-Earnings (PE) ratio ➢ Market price per share
	Balance sheet	➢ Current ratio, a quick ratio ➢ Asset turnover (current and fixed assets) ➢ Growth in assets ➢ Capital expenditure % to total assets ➢ Debt-equity ratio ➢ Debt to total capital employed

Productivity & Efficiency	Material	➢ Material cost % to the total cost ➢ Material wastage as % of total input ➢ Contribution per unit of material used
	Labour	➢ Production per man hour ➢ Production per employee ➢ Employee cost % to sales ➢ Idle hours % to total available hours
	Machine	➢ Production per machine hour ➢ Growth in machine capacity utilization ➢ Machine downtime ratio ➢ Break-down hours
Manufacturing performance	Operating cycles	➢ Material turnover ➢ WIP turnover ➢ Finished goods turnover
Customer performance	Complaints	➢ % of customer complaints to total orders ➢ Response time to resolve a complaint ➢ Customer-wise number of complaints ➢ Number of complaints repeated
	Development	➢ Business growth % over 3 years
	Risks	➢ Payment defaults ➢ Delinquencies ➢ Payment delays
	Retention and satisfaction	➢ Customer retained over 3 years ➢ Customer satisfaction index ➢ On-time order execution % ➢ Correct documentation % ➢ Customer orders delivered in full % ➢ Average time spent on customer relation
	Overall	➢ order-to-cash cycle days
	Delivery	➢ On-time supplies ➢ Supply of full quantity
	Quality	➢ % Of rejections
	Cost	➢ Price reductions agreed-cost-effect ➢ Price escalations gave-cost-effect
	Overall	➢ Supplier satisfaction index ➢ Accuracy of forecasts shared

Exercise

A. Theoretical Questions

Multiple Choice Questions

1. Which of the following is a kind of information report?
   (a) Trend reports.
   (b) Analytical report.
   (c) Activity reports.
   (d) All of the above.

2. Management reporting can be performed as______.
   (a) Internal reporting.
   (b) External reporting.
   (c) Both (a) & (b).
   (d) None of the above.

3. The backbone of any organisation is____.
   (a) Information.
   (b) Employee.
   (c) Management.
   (d) Capital.

4. Which of these is usually written in a form of a memorandum?
   (a) Informal reports.
   (b) Formal reports.
   (c) Professional reports.
   (d) Business reports.

5. Which of the following is a type of matter that may be covered in a special report?
   (a) Feasibility study for a project.
   (b) Cost reduction schemes information.
   (c) Data on make or buy decision.
   (d) All of the above.

6. _____ 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.

7. _____ is a very important method of presenting information to the management in a pictorial manner and attracts the eye of the recipient more quickly and forcibly.

   (a) Tabular Reports.

   (b) Descriptive Reporting.

   (c) Graphic Presentation.

   (d) All of the above.

8. _____ are presented in the form of comparative statements.

   (a) Descriptive Reports.

   (b) Graphics Presentation.

   (c) Transactional Analysis.

   (d) Tabular Reports.

9. Which of the following general principle is required to be followed while reporting?

   I. Report should have a proper title.

   II. Report should be in good form and should have subheadings and paragraphs.

   III. Format of the report should be changed frequently.

   IV. Report should factual.

   V. Report need not save the time of the management.

   Select the correct answer from the options given below.

   (a) I and III only.

   (b) II & IV only.

   (c) II, III, and V only.

   (d) IV, I, and II only.

Professional Ethics

3.3

Code of Professional Ethics

As professionals in the field of Cost and Management Accounting, the members of our Institute are bound by a code of professional ethics. This code stipulates and binds them to the highest level of care, duty and responsibility to their employers and clients, the public and their fellow professionals.

The objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement. These objectives require four basic needs to be met:

(a) Credibility in information and information systems;

(b) Professionalism identified by employers, clients and other interested parties;

(c) Quality of service carried out to the highest standards of performance; and

(d) Confidence that there is a framework of professional ethics to govern the provision of services.

In order to achieve the objectives of the accountancy profession, cost accountants have to observe fundamental principles, which are:

(a) Integrity

A cost accountant should be straightforward and honest in performing his services.

(b) Objectivity

A cost accountant should be fair and should not allow prejudice or bias or the influence of others to override objectivity.

(c) 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.

(d) 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.

(e) 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.

Duties of a Cost Auditor to Report Fraud – Section 143 of the Companies Act, 2013

3.4

(i) 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.

(ii) Sub-Section 13 specifies that no duty to which an auditor of a company may be subject to 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.

(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) Matter are required to be reported immediately but not later than 2 days of his knowledge specifying:

   (a) Nature of Fraud with description;

   (b) Approximate amount involved; and

   (c) Parties involved.

(vi) Following disclosures are required to be made in Board's Report:

   (a) Nature of Fraud with description;

   (b) Approximate Amount involved;

   (c) Parties involved, if remedial action not taken; and

   (d) Remedial actions taken.

Punishment for Fraud (Section 447 of the Companies Act, 2013)

3.5

Without prejudice to any liability including repayment of any debt under this Act or any other law for the time being in force, any person who is found to be guilty of fraud, shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud:

Provided that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

Explanation.—For the purposes of this section—

(*i*) "fraud" in relation to affairs of a company or any body corporate, includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss;

Punishment for False Statement (Section 448 of The Companies Act, 2013)

3.6

Save as otherwise provided in this Act, if in any return, report, certificate, financial statement, prospectus, statement or other document required by, or for, the purposes of any of the provisions of this Act or the rules made thereunder, any person makes a statement,—

(a) which is false in any material particulars, knowing it to be false; or

(b) which omits any material fact, knowing it to be material,

he shall be liable under section 447.

PROFESSIONAL AND OTHER MISCONDUCTS

THE COST AND WORKS ACCOUNTANTS ACT, 1959

It is an Act for the regulation of the profession of Cost Accountants. The regulation is exercised through the Institute. For the management of the affairs and for discharging the functions assigned to it by the Cost and Works Accountants Act, there is a Council of the Institute. The Council has been empowered to institute any enquiry into cases where it is prima facie of the opinion that a member is guilty of professional or other misconduct.

SCHEDULES TO THE ACT

THE FIRST SCHEDULE

PART I

PROFESSIONAL MISCONDUCT IN RELATION TO COST ACCOUNTANTS IN PRACTICE

A cost accountant in practice shall be deemed to be guilty of professional misconduct, if he:-

(1) 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;

(2) pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his 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.

Explanation: In this item, "partner" includes a person residing outside India with whom a cost accountant in practice has entered into partnership which is not in contravention of item (4) of this part;

(3) 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:

Provided that nothing herein contained shall be construed as prohibiting a member from entering into profit sharing or other similar arrangements, including receiving any share, commission or brokerage in the fees, with a member of such professional body or other person having qualifications, as is referred to in item (2) of this Part;

(4) enters into 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, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (iv) of sub-section (1) of section 4 or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships;

(5) 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:

Provided that nothing herein contained shall be construed as prohibiting any arrangement permitted in terms of items (2), (3) and (4) of this Part;

(6) solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means:

Provided that nothing herein contained shall be construed as preventing or prohibiting-

(i) any cost accountant from applying or requesting for or inviting or securing professional work from another cost accountant in practice;

(ii) a member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence;

(7) advertises his professional attainments or services, or uses any designation or expressions other than cost accountant on professional documents, visiting cards, letter heads or sign boards, unless it be a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of the [Institute of Cost Accountants of India] or of any other institution that has been recognised by the Central Government or may be recognised by the Council :

Provided that a member in practice may advertise through a write up, setting out the services provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council;

PART II

PROFESSIONAL MISCONDUCT IN RELATION TO MEMBERS OF THE INSTITUTE IN SERVICE

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person—

(1) pays or allows or agrees to pay, directly or indirectly, to any person any share in the emoluments of the employment undertaken by him;

(2) accepts or agrees to accept any part of fees, profit or gains from a lawyer, a cost accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

PART III

PROFESSIONAL MISCONDUCT IN RELATION TO MEMBERS OF THE INSTITUTE GENERALLY

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he—

(1) not being a fellow of the Institute acts as a fellow of the Institute;

(2) does not supply the information called for, or does not comply with the requirements asked for by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;

(3) while inviting professional work from another cost accountant or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

PART IV

OTHER MISCONDUCT IN RELATION TO MEMBERS OF THE INSTITUTE GENERALLY

A member of the institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if—

(1) he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding six months;

(2) in the opinion of the Council he brings disrepute to the profession or the institute as a result of his action whether or not related to his professional work.

THE SECOND SCHEDULE

[See sections 21(3), 21B(3) and 22]

PART I

PROFESSIONAL MISCONDUCT IN RELATION TO COST ACCOUNTANTS IN PRACTICE

A cost accountant in practice shall be deemed to be guilty of professional misconduct, if he:—

(1) 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;

(2) certifies or submits in his name, or in the name of his firm, a report of an examination of cost accounting and related statements unless the examination of such statements has been made by him or by a partner or an employee in his firm or by another cost accountant in practice;

(3) permits his name or the name of his firm to be used in connection with an estimate of cost or earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast;

(4) 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;

(5) fails to disclose a material fact known to him in a cost or pricing statement, which is not disclosed in a cost or pricing statement but disclosure of which is necessary in making such statement where he is concerned with such statement in a professional capacity;

(6) fails to report a material mis-statement known to him to appear in a cost or pricing statement with which he is concerned in a professional capacity;

(7) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

(8) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;

(9) fails to invite attention to any material departure from the generally accepted procedure of costing and pricing applicable to the circumstances;

(10) fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

PART II

PROFESSIONAL MISCONDUCT IN RELATION TO MEMBERS OF THE INSTITUTE GENERALLY

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he-

(1) contravenes any of the provisions of this Act or the regulations made there-under or any guidelines issued by the Council;

(2) being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment, except as and when required by any law for the time being in force or except as permitted by the employer;

(3) includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false;

(4) defalcates or embezzles moneys received in his professional capacity.

PART III

OTHER MISCONDUCT IN RELATION TO MEMBERS OF THE INSTITUTE GENERALLY

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.]

CONSTITUTION OF DISCIPLINARY DIRECTORATE, BOARD OF DISCIPLINE AND DISCIPLINARY COMMITTEE

Section 21 (1) of the Cost and Works Accountants Act, 1959 provides for constitution of the Disciplinary Directorate, Board of Discipline and Disciplinary Committee. For purposes of provisions of this Act Disciplinary Directorate, Board of Discipline and Disciplinary Committee, and Director (Discipline) shall have same powers as are vested in a civil court under the Code of Civil Procedure.

PENALTIES UNDER THE ACT

Section 24 of the Cost and Works Accountants Act, 1959: Penalty for falsely claiming to be a member, etc.

Any person who,-

(i) not being a member of the Institute-

(a) represents that he is a member of the Institute; or

(b) uses the designation cost accountant; or

(ii) 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, and on any subsequent conviction with imprisonment which may extend to six months, or with fine which may extend to five thousand rupees, or with both.

Section 25 of the Cost and Works Accountants Act, 1959: Penalty for using name of the Council, awarding degrees of cost accountancy, etc.

(1) Save as otherwise provided in this Act, no person shall,-

(i) use a name or a common seal which is identical with the name or the common seal of the Institute or so nearly resembles it as to deceive or as is likely to deceive the public;

(ii) award any degree, diploma or certificate or bestow any designation which indicates or purports to indicate the position or attainment of any qualification or competence in cost accountancy similar to that of a member of the Institute; or

(iii) seek to regulate in any manner whatsoever the profession of [cost accountants.]

(2) Any person contravening the provisions of sub-section (1) shall, without prejudice to any other proceedings which may be taken against him, be punishable on first conviction with fine which may extend to one thousand rupees, and on any subsequent conviction with imprisonment which may extend to six months, or with fine which may extend to five thousand rupees, or with both.

(3) Omitted w.e.f. 8/8/2006

(4) If the Central Government is satisfied that any diploma or certificate or any designation granted or conferred by any person other than the Institute, which purports to be a qualification in cost accountancy but which, in the opinion of the Central Government, falls short of the standard of qualifications prescribed for cost accountants and does not in fact indicate or purport to indicate the position or attainment of any qualification or competence in cost accountancy similar to that of a member of the Institute, it may, by notification in the Official Gazette and subject to such conditions as it may think fit to impose, declare that this section shall not apply to such diploma or certificate or designation.

Section 26 of the Cost and Works Accountants Act, 1959: Companies not to engage in cost accountancy.

(1) No company, whether incorporated in India or elsewhere, shall practice as cost accountants.

(2) Any contravention of the provisions of sub-section (1) shall be punishable on first conviction with fine which may extend to one thousand rupees, and on any subsequent conviction to five thousand rupees.

[Explanation: For the removal of doubts, it is hereby declared that the ''company'' shall include any limited liability partnership which has company as its partner for the purposes of this section.]

Section 27 of the Cost and Works Accountants Act, 1959: Unqualified persons not to sign documents.

(1) No person other than a member of the Institute shall sign any document on behalf of a cost accountant in practice or a firm of such cost accountants in his or its professional capacity.

[(2) Any person who contravenes the provisions of sub-section (1) shall, without prejudice to any other proceedings which may be taken against him, be punishable on first conviction with a fine not less than five thousand rupees but which may extend to one lakh rupees, and in the event of a second or subsequent conviction with imprisonment for a term which may extend to one year or with a fine not less than ten thousand rupees but which may extend to two lakh rupees or with both.]

Section 28 of the Cost and Works Accountants Act, 1959: Offences by companies.

- If the person committing an offence under this Act is a company, the company as well as every person in charge of, and responsible to, the company for the conduct of its business at the time of the commission of the offence shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly : Provided that nothing contained in this sub-section shall render any such person liable to any punishment if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence. (2) Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or that the commission of the offence is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.
- **Explanation:** For the purposes of this section,- (a) "company", with respect to an offence under section 24, section 25 or section 27, means any body corporate and includes a firm or other association of individuals; and with respect to an offence under section 26 means a body corporate; and (b) "director", in relation to a firm, means a partner in the firm.

Section 29 of the Cost and Works Accountants Act, 1959: Sanction to prosecute.

- No person shall be prosecuted under this Act except on a complaint made by or under the order of the Council or of the Central Government.

Solved Case

ABC a public limited company manufacturing productcomes under Non-Regulated Sector and classified products under CTA. The total Turnover of the Company for the financial year 2021-22 is ₹159.00 Crores as per details below.

Sr. No.	CTA Heading	Additional Details	Turnover (₹/Crores)
1.	7401	Waste & Scrap	46
2.	7405	PRODUCT(s) Manufactured	57
3.	7406	By Product	56
TOTAL			159

The company seeks your opinion whether the provisions of maintenance of cost records and audit there of applicable particularly in view of turnover of all the product group individually is below the ₹ 100.00 crores.

Solution:

To

The Managing Director

M/s ABC Limited

Dear Sir

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 companyas 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

Cost Audit Documentation, Audit Process and Execution

SLOB Mapped against the Module

1. To gain in-depth knowledge about the statutory provisions of Companies (Cost Records and Audit) Rules to ensure adherence to the regulations in conducting cost audit. (CMLO 4a, b)
2. To develop detail understanding of Cost Accounting and Auditing Standards to ensure appropriate evaluation of cost records maintained. (CMLO 4a, b)

Module Learning Objectives:

This module discusses about how in documenting the nature and extent of audit procedures performed, the Cost Auditor shall record the characteristics of the specific items or matters tested the responsibility for performing and reviewing such procedures and the relevant dates. The Cost Auditor shall prepare audit documentation that is sufficient to enable another Cost Auditor undertaking a peer review to understanding. After studying this module, the students will be able to –

- Enumerate the relevant Cost Audit Documentation
- Know the steps of Audit Process and its Implementation

Introduction

7

Before starting Cost Audit, the Cost Auditor should be familiar with all documents to be audited by him/her. He/she should also be knowledgeable about processes of Cost Audit as well as the practical steps of the Audit Process.

Cost Audit Documentation

7.1

Audit documentation: 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.

Audit file: Audit file means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific assignment or audit.

Audit working papers: 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.

AUDIT STAGES

The stages of an audit of cost statements are:

1. Planning
2. Performing
3. Reporting

Figure below gives a pictorial view of these three stages.

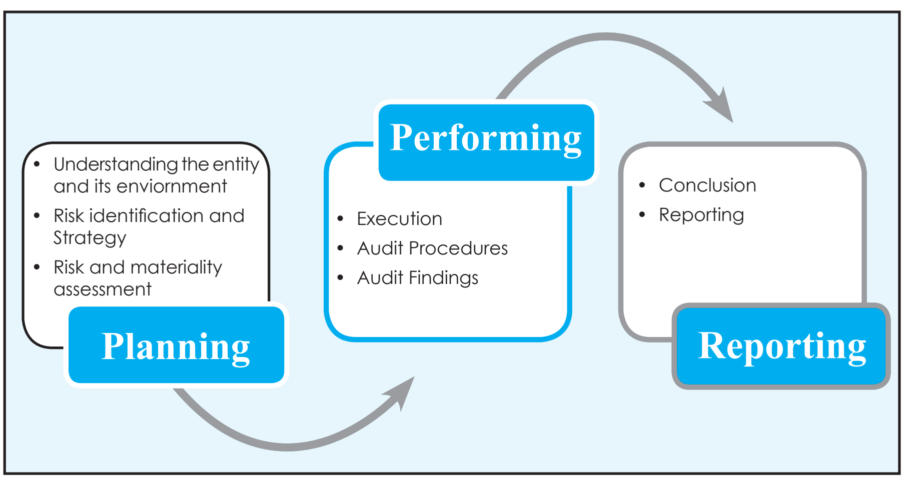

Figure 7.1: Overview of the Cost Audit

Once the entity's acceptance or continuation decision has been made, the first stage is planning the audit. Broadly, the planning stage involves: (i) gaining an understanding of the client, (ii) identifying factors that may impact the risk of a material misstatement in the cost statements, (iii) performing a risk and materiality assessment, and (iv) developing an audit strategy. The risk of a material misstatement is the risk that the cost statements include a significant error or fraud. The execution stage (or performing stage) of the audit involves the performance of detailed testing of internal controls and substantive testing of cost accounting policies & procedures. The reporting stage involves evaluating the results of detailed testing in light of the cost auditor's understanding of the entity and forming an opinion on the fair presentation of the entity's cost statements as a whole.

Planning an Audit - First Stage

"It is well said that a well planned audit is almost half way done"

The planning stage involves determining the audit strategy as well as identifying the nature and the timing of the procedures to be performed. This is done to optimize efficiency and effectiveness when conducting an audit. Efficiency refers to the amount of time spent gathering audit evidence. Effectiveness refers to the minimization of audit risk. A well-planned audit will ensure that sufficient appropriate evidence is gathered to minimize risk of material misstatement at the cost statement level.

Performing an Audit – Second Stage

The performance, or execution, stage of the audit involves detailed testing of internal controls, material consumptions, cost accumulation, allocation, apportionment, and absorption. If an auditor plans to rely on their client's system of internal controls, they will conduct tests of controls. Cost auditor will conduct detailed substantive tests of audit procedures for the period and detailed substantive tests of consumptions and balances recorded at the period end. This detailed testing provides the evidence that the cost auditor requires to determine whether the cost statements have been fairly presented.

Concluding and Reporting on an Audit – Final Stage

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. The cost auditor's opinion is expressed in the cost audit report. At this stage of the audit, a cost auditor will draw on their understanding of the client, their detailed knowledge of the risks faced by the client, and the conclusions drawn when testing the entity's controls, transactions, cost heads, item of cost and related disclosures.

Audit Process

7.2

The Processes of Cost Audit can be explained through the following table that shows connection between Activity ⟶ Purpose ⟶ Documentation at the planning, performing and reporting phases.

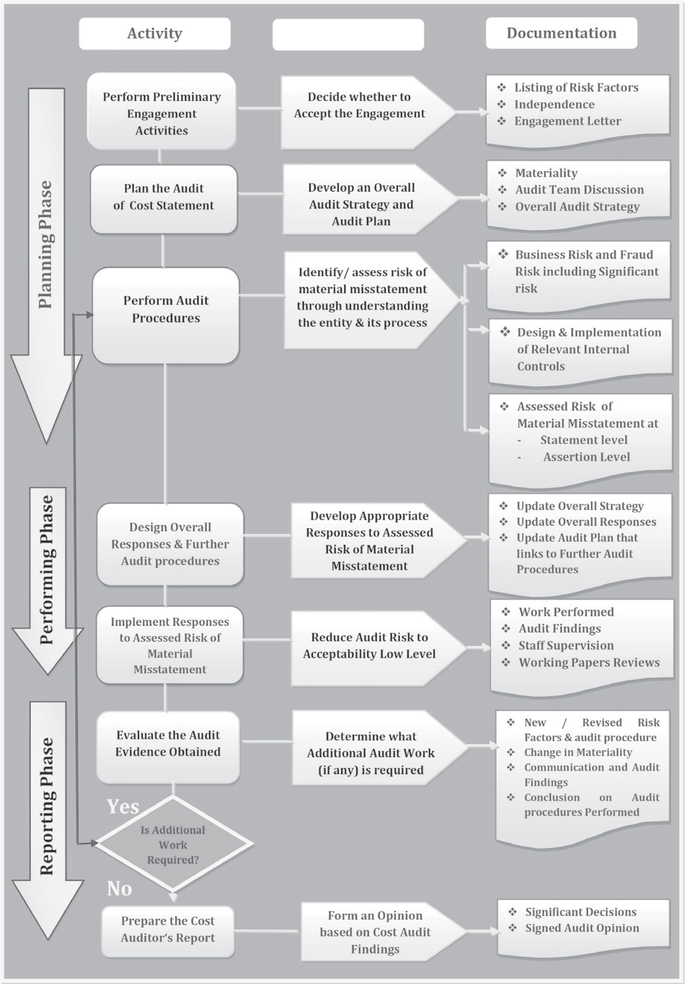

Figure 7.2: Audit Process

Practical Steps of Audit Process 7.3

The points given below summarize what a cost auditor does when he undertakes a cost audit:

Step-I : Objectives of Audit and Management Outlook

The cost auditor should understand whether the audit is meant only for meeting with the statutory requirements or the management does have any other expectations or outcomes in its mind from the cost audit, such as

(a) cost optimization or cost reduction

(b) checking parameters of operational efficiency of a unit or any utility or any other function or department

(c) suggesting product diversification or changed product-mix

(d) identifying profit making or loss making products

(e) suggesting changed marketing strategies; market expansion; market diversification

(f) complete review of business strategies

Step-II : Pre-conditions

1. The cost auditor should fully understand the

    (a) Objectives of cost audit

    (b) Area, nature and scope of audit

    (c) Number of cost auditors appointed

    (d) The applicable reporting framework

    (e) The reporting period

    (f) The statutory deadlines

2. The auditor should ascertian whether the Management understands its scope of work and responsibilities for

    (a) maintenance of cost records & producing them to the cost auditor;

    (b) preparation & presentation of cost statements & other details as per the applicable reporting framework, and in compliance with the cost accounting standards;

    (c) selection and consistent application of appropriate cost accounting policies;

(d) allowing access to the auditor all information, including the books of accounts, vouchers, cost records, other records, documents, and other matters of the company, which are relevant to the preparation of the cost statements;

(e) providing additional information that the cost auditor may request from the management for the purpose of cost audit;

(f) allowing unrestricted access to persons within the company from whom the cost auditor determines and obtains cost audit evidence; and

(g) giving proper management representation.

3. The auditee and the cost auditor decides the audit fee and payment schedule; and finally, the cost auditor gets an engagement letter. All these are called pre-conditions of audit.

Step-III : Understanding the Company's Business

The cost auditor is required to understand the company's business, its corporate structure and various systems followed. The company related details and other general details include:

(a) 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.

(b) The nature of the industry or the sector in which client company operates

(c) The applicable regulatory framework, financial reporting framework and cost reporting framework

(d) The company's production process, product details, joint or by-products, outsourcing, if any

(e) Details of subsidiaries, associates and joint ventures

(f) Key personnel in all departments including in Finance, Accounts, Costing, IT, Administration, Production, Purchase, Sales, etc

(g) Purchase policy, sales policy, pricing policy, export/import policy

(h) Inventory receipt, storage, issue & pricing policies; physical verification system; inventory management system

(i) Related parties and nature of transactions with them

(j) Indirect tax structure, as applicable

(k) Internal Control Systems followed by the company

(l) Internal Audit System, its scope & adequacy of coverage as well as effectiveness

(m) Accounting Systems & Policies followed by the company

(n) Cost Accounting System & Policies followed by the company

(o) Company's MIS system, risk identification & management system

(p) IT structure followed for financial accounting and for cost accounting, IT policy, control checks, authorization checks, IT data security policy

(q) Previous auditor's report

Step-IV : Planning the Audit

Planning the audit include:

(a) Timing [dates] and duration [no. of days] of audit period including plan to visit the unit(s)

(b) Level and number of audit personnel to be deployed including supervision and review of work done by the audit team

(c) Audit partner to be deployed and his expected days & dates

(d) Drawing up an overall audit plan and audit strategy – this will act as guide to the audit team

(e) Deciding the materiality levels & sampling levels

(f) Formulating appropriate audit procedures

- ➢ Management Representation
- ➢ Management Assertion
- ➢ Test of Controls
- ➢ Test of Details
- ➢ Substantive procedures
- ➢ Analytical procedures

(g) Formulating risk assessment strategies & procedures i.e. methodology to measure material misstatements

(h) Planning for discussions with key personnel of the company, previous cost auditor, statutory financial auditor, and internal auditor

(i) Key inputs for planning are

- ➢ results of preliminary activities as specified above
- ➢ knowledge from previous audits and other engagements with the company
- ➢ knowledge of business
- ➢ nature and scope of the audit
- ➢ statutory deadlines and reporting format
- ➢ relevant factors determining the direction of the audit efforts
- ➢ nature, timing and extent of resources required for the audit

(j) Documenting the Audit Plan and sharing it with the company

(k) Ensuring adherence to the Guidance Manual for Audit Quality

Step-V : Execution of Audit

(a) Performing the audit checks and procedures, as planned

(b) Collecting all required audit evidence enabling the auditor to form his opinion

(i) validating their relevance and reliability

(ii) checking their accuracy, completeness and sufficiency

(iii) checking the source and consistency

(c) Preparing draft observations & discussing with key management personnel

(d) Preparing final audit report

Step-VI : Audit Documentation

(a) Documenting audit plan, audit strategy

(b) Documenting all working papers

(c) Documenting all the audit evidences

(d) Documenting draft observations and discussions

(e) Documenting final report

(f) Preserving all documents in a bound folder/filing for the prescribed period.

Preparation and Filing of Cost Audit Report

8

This Module includes:

Preparation and Filing of Cost Audit Report

SLOB Mapped against the Module

To focus on basic cost information, appropriately computed cost centre wise, system-based cost data support for decision-making processes. (CMLO 5a)

Module Learning Objectives:

Every Cost Auditor or every Lead Cost Auditor on behalf of all the Cost Auditors in a Company, has to file their Cost Audit Report and other documents with the Central Government as per sub-section (4) of section 233B of the Act, and rules made there under. Companies operating in the above mentioned industries and meeting the criteria, should have cost auditors to conduct their cost records and file in XBRL format and those are discussed in the module. After studying this module, the students will be able to –

- Identify the Critical Elements of Cost Audit Report and Related Evidences
- Ascertain and understand a Qualified Audit Report and an Adverse Audit Report
- Perform the Filing of Cost Audit Report to MCA in XBRL Format

Introduction

8.1

A Cost Auditor is required to submit his report in Form CRA-3 which is required to be prepared on the ,basis of data and information available in the cost accounting records and other data maintained by the company in accordance with CRA-1 of the rules. The format of the Cost Audit Report and Annexure thereto has been prescribed by the Companies (Cost Records and Audit) Rules, 2014 [amended as on 15^{th} October, 2019].

The primary responsibility of preparation of the Annexures to the Cost Audit Report lies with the company. However, the same should be prepared in consultation with the cost auditor to ensure that the reporting conforms to the prescribed rules and at the same time the report is in conformity with the cost accounting records.

If, as a result of the examination of the books of the accounts, the cost auditor wants to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant paragraph (i) to (vi) in the prescribed form of the cost audit report giving details of discrepancies noticed by him. It implies that the cost auditor should put his comments in the respective paragraphs of the cost audit report itself.

The report, suggestions, observations and conclusions given by the cost auditor shall be based upon data duly verified, and reference to which shall be made in the report and shall be included after an opportunity is given to the company to comment on them. The cost auditor is required to point out any deficiency or reservation to the management first. In case he is satisfied with the response of the management, he may decide to drop the issue. However, if he is not satisfied with the explanation of the management, he may decide to qualify the report to that extent.

Critical Elements of Cost Audit Report and Related Evidences (Physical and Digital)

8.2

The Institute of Cost Accountants of India defines 'cost audit' as an audit of efficiency of minute details of expenditure while the work is in progress and not a post-mortem examination like Financial audit, which is a 'fait accompli'.

A cost audit comprises the following:

Verification of the cost accounting records such as the accuracy of the cost accounts, cost reports, cost statements, cost data and costing technique. Examination of these records to ensure that they adhere to the cost accounting principles, plans, procedures and objective.

Cost audit **helps in detection of errors and frauds**. The management gets accurate and reliable data based on which they can make day-to-day decisions like price fixation, margin, continuity or outsourcing, make or buy etc. It helps in cost control and finding avenues of cost reduction.

The Cost Audit and requirement of details are informative for better and clear understanding of the Users of Report. CRA – 1, prescribes 30 (thirty) broad headings for detailed cost accumulation. The Headings are:

1. Material Cost,
2. Employee Cost,
3. Utilities,
4. Direct Expenses,
5. Repair and Maintenance,
6. Fixed Assets and Depreciation,
7. Overheads,
8. Administrative Overheads,
9. Transportation Cost,
10. Royalty and Technical Know-how,
11. Research and Development Expenses,
12. Quality Control Expenses,
13. Pollution control Expenses,

14. Service Department Expenses,
15. Packing Expenses,
16. Finance Cost,
17. Any other item of Cost,
18. Capacity determination,
19. Work-In-Progress,
20. Captive consumption,
21. By-product and Joint product,
22. Adjustment of cost variances,
23. Reconciliation of Cost and Financial Account,
24. Related Party,
25. Expenses or Incentives on Exports,
26. Production Records,
27. Sales Records,
28. Cost Statements,
29. Statistical Records,
30. Records of Physical verification.

Accordingly, the prescribed Format (Ref. CRA -3) i.e the Cost Audit Report includes Unit-wise, Product/Service-wise Cost Statements and Schedules, deviation for the same need to be reported. Part – D of CRA-3 is a measure towards performance orientation which includes the following aspects :

(a) Product and Service profitability statement

(b) Profit reconciliation

(c) Value addition and distribution of earnings

(d) Financial position and ratio analysis

It is needless to point out that appropriate documentation (Working papers, Files, process document in physical or electronic form/ mode) and additional supporting, if any, to be to be filed along with XBRL.

The above requirements are to accomplish the objectives of cost audit:

(i) To verify that the cost accounting records (or costing books) are accurate.

(ii) To certify that costing principles have been fully adhered to in maintaining cost accounts.

(iii) To find out whether the predetermined cost accounting procedures and processes have been strictly followed by the management.

(iv) To detect errors and frauds, which might have been committed intentionally or otherwise in preparing cost accounts.

(v) To check whether each item of expenditure involved into the relevant components of goods manufactured has been properly incurred.

(vi) To see how far the existing practices of cost records are helpful for the management to take decisions.

(vii) To disclose the deficiencies or inefficiencies in the use of material, labour and machines with a view to assist the management.

(viii) To assist the external auditor in conducting detailed checking by reducing the volume of audit work through the use of internal cost audit system.

(ix) To exercise moral check on the cost accounting staff and to attain efficiency in cost accounting systems and procedures.

The following critical elements must be stated in the cost auditor's report:

(a) Whether the machines and labour remained idle during the year because of the shortage of raw materials.

(b) Whether a large quantity of raw materials were stocked which remained unutilized for a long time, thereby locking up the working capital of the company.

(c) He should state whether the cost records maintained by the company were adequate for the purpose of audit.

(d) He should state whether the broad policy laid down by the management was faithfully followed.

(e) The report should concentrate more on the cost of production, comparative profitability, and operating efficiency of different lines in which the company is engaged rather than the routine statistical or financial information.

(f) The cost auditor should state if there has been a rise in the cost of production as compared to that of the previous year. He should analyse the causes of such a rise. He should clearly point out where the problem originates from.

(g) The report should state if there has been any wastage during the process of manufacture and how it could be avoided.

(h) The cost auditor should also mention the areas in which it is possible to reduce the cost of production.

(i) He should state whether or not the cost statement reveals a true and fair view of the cost of production.

Every Company covered under this rules, within a period of 30 days from the receipt of the cost audit report to submit /upload in XBRL Format the detail and report with full information and explanations on every reservations or quantification contained therein in CRA-4 as specified in the Companies Filing of Documents and Forms in XBRL Rules 2015 in MCA Portal. This helps Companies to integrate Financial and Cost datum across all operational areas for better control.

Qualified Audit Report

8.3

A qualified audit report is given by the cost auditor when the cost statements are materially misstated due to misstatement in one particular cost element, class of transaction or disclosure that does not have pervasive effect on the cost statements and when the cost auditor is unable to obtain audit evidence regarding particular cost element, its allocation and apportionment, class of transaction or disclosure that does not have pervasive effect on the cost statements.

A qualified audit report issued when the cost auditor encounters any of these situations which do not comply with the generally accepted cost accounting principles and is not in conformity with the principles laid down in CRA-1.

Adverse Audit Report

8.4

An adverse audit report on the cost accounting records and cost statements of a company means that the cost statements are materially misstated and such misstatements have pervasive effect on the cost of production, cost of sales and margin of the products. An adverse opinion is issued when the cost auditor determines that the cost statements of an auditee are materially misstated and when considered as a whole, do not conform with the generally accepted cost accounting principle. It is considered the opposite of an unqualified or clean opinion, essentially stating that the information contained is materially incorrect, unreliable, and inaccurate in order to assess the company's operational results.

Filing of Cost Audit Report to MCA in XBRL Format (As per TAXONOMY) 8.5

Before we discuss about cost audit report, let us know in detail about XBRL, its Glossary and Format as per Costing Taxanomy.

Rule 6(6), of the Companies (Cost Records and Audit) Rules, 2014, as amended by the Companies (Cost Records and Audit) Amendment Rules, 2016, vide Gazette notification No: G.S.R. 695(E), dated 14th July, 2016 mandates that:

"Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in Form CRA-4 in Extensible Business Reporting Language format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.".

Accordingly, all the cost audit reports have to be filed online, with MCA, in XBRL format, attached to the prescribed Form CRA-4. XBRL international, and the MCA portal, provide detailed information about XBRL and its applications. The necessary information and procedure for understanding XBRL in general and filing of cost audit report in that format, as extracted from these portals is briefly recited below:

XBRL is the open international standard for digital business reporting, managed by a global not for profit consortium called "XBRL International". XBRL is used around the world, in more than 50 countries. Millions of XBRL documents are created every year, replacing older, paper-based reports with more useful, more effective and more accurate digital versions. The change from paper, PDF and HTML based reports to XBRL is like the change from film photography to digital photography, or from paper maps to digital maps.

XBRL makes reporting more accurate and more efficient. It allows unique tags to be associated with reported facts, allowing:

- people publishing reports to do so with confidence that the information contained in them can be consumed and analysed accurately.
- people consuming reports to test them against a set of business and logical rules, in order to capture and avoid mistakes at their source.
- people using the information to do so in the way that best suits their needs, including by using different languages, alternative currencies and in their preferred style.
- people consuming the information to do so confident that the data provided to them conforms to a set of sophisticated pre-defined definitions.

Comprehensive definitions and accurate data tags allow the:

- preparation
- validation
- publication
- exchange
- consumption
- analysis

of business information of all kinds.

Information in reports prepared using the XBRL standard is interchangeable between different information systems in entirely different organisations. This allows for the exchange of business information across a reporting chain. People that want to report information, share information, publish performance information and allow straight through information processing all rely on XBRL.

Potential uses of XBRL

XBRL can be applied to a very wide range of business applications including financial and cost data. XBRL has applications in the following areas:-

- Reporting for internal and external purposes by an entity involving financial and costing data/information.
- Business reporting to all types of regulators, including tax and financial authorities, central banks and governments.
- Filing of loan reports and applications; credit risk assessments.
- Exchange of information between government departments, institutions and banks.

Benefit from using XBRL

All types of organisations can make use of XBRL to automate their process of **data** collection and distribution to various stakeholders. It helps in saving costs and improving the efficiency in managing business information - financial or cost. XBRL being extensible and flexible, can be adapted to a wide variety of requirements. All stakeholders whether they are preparers, transmitters or users of business data in the financial information supply chain can benefit from the use of XBRL.

Future of XBRL

XBRL has a bright future ahead of it that goes way beyond the current focus on regulatory reporting and compliance. Businesses that are now creating XBRL filings for regulatory bodies should be thinking about how they can leverage their investment in understanding and using XBRL to drive more consistent and comparable internal reporting. By tagging data at the account/transaction level, by investigating how XBRL can help to deliver new holistic reports that integrate and connect financial and non-financial data, and by leveraging emerging online XBRL data streams for better industry performance and peer group analytics, every business can power its own journey towards financial transformation.

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.

Costing Taxonomy

Costing Taxonomy is a dictionary of all cost elements required in the cost audit report. The costing taxonomy contains the properties and interrelationships of all these cost elements for the purposes of capturing the required reporting data in XBRL format.

Conversion of cost audit report into the XBRL format

XBRL is an open source technology. Any of the following methods can be adopted to create the instance document required for filing of the respective reports.

- XBRL-enabled software packages developed by different software vendors which support the creation of cost reports in XBRL format can be used to create the necessary document.
- Various elements of Cost Audit Report can be mapped into XBRL tags of the costing taxonomy using specialised XBRL software tools specifically designed for this purpose.
- Different third party packages can be integrated into the existing accounting systems to generate XBRL Cost statements.
- There are various web based applications available that take input reports in various formats viz. Microsoft Excel etc. and transform them into XBRL format.

The methodology adopted by an individual company will depend on its requirements and the cost accounting software and systems being used and other factors.

Process to be followed to file the reports in XBRL Format

The following steps have to be followed in sequence:

- Mapping the individual cost elements of the company to the elements of the costing taxonomy.
- Populating the relevant data in the software/filing tool.
- Creating instance document.
- Validating the Instance Document with the Validation Tool of MCA.
- Use available tool to convert the Instance document to a human readable format and check correctness of data.
- Attaching the Instance Document to the e-Form and filing on MCA Portal.

STEPS FOR FILING COST AUDIT REPORT IN XBRL FORMAT ON MCA PORTAL

1. Creation of XBRL instance document

The first step for creating the instance document is tagging of the XBRL taxonomy elements with the information in the Cost audit report of the company by means of mapping of the taxonomy elements with the Cost audit report. This converts the report into XBRL form. We need to have a tool to create an 'xml' file and convert it into an instance document. There are several vendors, who provide and sell this application, that has to be acquired for the purpose.

Mapping is the process of comparing the concepts in the Cost audit report to the elements in the published taxonomy, assigning a taxonomy element to each costing concept published by the company. Once the tagging of Cost audit report elements with the published taxonomy elements is done, the next step is to create the instance document. An instance document is a XML file that contains business reporting information and represents a collection of costing information and report-specific information using tags from the XBRL taxonomy. It is to be noted that no extensions to the core Taxonomy will be allowed. Separate instance documents need to be created for the Cost Audit report, for the periods prior to and beginning after 01.04.2014.

Once the instance document has been prepared, it needs to be ensured that the instance document is a valid instance document and all the information has been correctly captured in the instance document. MCA Validation Tool provides for 'human readable' PDF printable form as well as a view of the instance document.

2. Download XBRL validation tool

A separate tool has been provided on the MCA XBRL portal for validating the generated XBRL instance document. Validating the instance document with the MCA XBRL validation tool (for costing taxonomy) is a pre-requisite before filing the Cost audit report on MCA portal.

You are required to download the tool from the portal and validate the instance document before uploading the same. The MCA XBRL validation tool (for costing taxonomy) can be downloaded from the XBRL website of the Ministry (www.mca.gov.in/XBRL).

Before Validating an Instance document, the applicable taxonomy is to be selected by the user from the drop down option 'Taxonomy'. In case the user is under LAN network, then he/she is required to click the link 'Proxy Settings' under 'Taxonomy' menu in the tool to enter the Proxy Host and Port along with user name and password. This is to setup the Internet connection, required to download the taxonomy through the XBRL Validation Tool.

3. Load the instance document

To load the instance document, you need to click the open button, select the instance document and open it. You need not exit the tool to load another instance document just click on 'open' again in the menu bar to open the next document. The detail of the company is available under the General Information tag in the XBRL viewer.

4. Validate the instance document

The next step is to validate the instance document. The following validations shall be performed by the tool-

- Validating that the instance document is as per the latest and correct version of taxonomy prescribed by MCA
- All mandatory elements have been entered
- Business Rules as specified by MCA
- Validations relating to XBRL Technical Specifications as per taxonomy

In case the instance document is not properly created, then the tool will through up the list of errors, in a separate window, and they need to be corrected and validated again for successful uploading of the report. The List of common errors and interpretation of validation errors as provided in Annexures –I & II, which are given at the end of this chapter.

5. Pre-scrutiny of the instance document

Once the instance document is successfully validated from the tool, the next step is to pre-scrutinise the validated instance document with the help of the same tool using a working internet connection. In the Pre-scrutiny, the server side validations (i.e. validations which are to be validated from the MCA21 system) shall be performed, using the MCA21 data base.

6. Convert to PDF and verify the contents of the instance document

Once the instance document has been successfully pre-scrutinized, the next step is to generate PDF by using 'Export to PDF' functionality in the tool to verify the final instance document. This step is essential to ensure that the textual information entered in the instance document is clearly readable. The company and the cost auditor/ cost accountant can use this feature to verify the accuracy of the instance document.

In case there is PDF conversion error or the size of the converted PDF is zero kilobytes, then check the textual information entered in the instance document and follow the html guidelines provided under the technical specifications to correct the instance document and validate and pre-scrutinize again.

7. Attach instance document to the Form CRA-4

Form CRA-4 is available on the MCA portal for filing in XBRL instance documents by the Company. First the Form has to be filled up correctly and thereafter, the validated and pre-scrutinised instance document for Cost Audit Report has to be attached to Form CRA-4.

8. Submitting the Form CRA-4 on the MCA portal

After the form is correctly filled, it is required to pre-scrutinize and then sign the form [with a valid digital signature of the person authorized by the board resolution] and then upload the same as per the normal e-Form filing process.

XBRL CONVERSION AND FILING ERRORS AND INTERPRETATION

Once the validation has been performed the list of errors, which may have occurred will be displayed by the tool. An "error" indicates that a mistake has happened, either in respect of the value of an item, or the format in which the value of the item is to be entered, not the value of an item, not matching with the values as in the data base of the MCA. E.g.: Date format 10-05-2021 is not the correct format, and it has to be entered as 10/05/2021.

A. List of common errors [Annexure – II]

Following are the few errors that may crop up in the process:

(1) Issue in net connectivity. Please check your connection.

(2) The PDF is not getting generated or PDF generated is of zero kilobytes in size.

(3) The format of the date entered is not as per the valid format.

(4) For Boolean data types 'Yes' or 'No' has been entered.

(5) 0-100 entered for Percentage Data Type fields

(6) Wrong Currency code like Rs entered.

(7) Mandatory fields have not been entered.

(8) In case the mandatory line-items of a table are not entered in the instance document.

(9) The elements are not entered for any abstract.

(10) The elements are not entered for ordered explicit members.

(11) In case of mandatory table, there is no element present.

(12) The value of element should be provided in at least one of the dimensional member.

(13) All details for given product or activity group code should be provided.

(14) An element having dimensional relationship is invalid with respect to scenario element in the referenced context.

B. Interpretation of validation errors [Annexure – I]

The following the instructions have to be followed to interpret those errors –

- All the Element Names will be shown within single quotes, like-'QuantityOfMaterialConsumed'
- All the values will be shown within square brackets like- [In Employment]
- All the explicit members must come within curly brackets like-{MaterialConsumed1Member}
- All the axis names will be shown within parenthesis like-(IdentificationOfProductOrActivityGroupAxis)
- Errors which start with "cvc" are those which have occurred for the reason that the instance document generated is not as per valid taxonomy schema and the XML is not properly formed.

  This is a basic level error and the software vendor needs to be contacted for these errors like: cvc-complex-type.2.2. [The schema validator used is Xerces from Apache (http://xerces.apache.org/) which is Industry Standard Schema Validator]
- In case of Costing Taxonomy, in some of the errors you might see terms like: "table", "axis", "explicit-members" and "typed-members".

The same has been explained below for better understanding:

- Table (Hypercube): is a collection of axes (dimensions) when grouped together define an entity.
- Axis (Dimension): is a category used to analyze the information about the items having relationship with a table.
- Explicit-members: are domains that are used to express an explicit dimension. It is an element defined in the taxonomy.
- Typed-members: are domains that are used to express a typed dimension. The dimension value for simple type domain is decided by the user creating instance document.

Solved Questions:

1. What is XBRL?

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.

It enables unique identifying tags to be applied to items of accounting data. The tags provide a range of information about the item, such as whether it is a monetary item, percentage or fraction. XBRL not only allows labels in any language to be applied to items, it also allows the accounting references or other subsidiary information to be added to the tags.

2. What are the potential uses of XBRL?

XBRL can be applied to a very wide range of business applications including financial and cost data. XBRL has applications in the following areas:-

- Reporting for internal and external purposes by an entity involving financial and costing data/information.
- Business reporting to all types of regulators, including tax and financial authorities, central banks and governments.
- Filing of loan reports and applications; credit risk assessments.
- Exchange of information between government departments, institutions and banks.

3. Who can benefit from using XBRL?

All types of organisations can make use of XBRL to automate their process of data collection and distribution to various stakeholders. It helps in saving costs and improving the efficiency in managing business information – financial or cost. XBRL, being extensible and flexible, can be adapted to a wide variety of requirements. All stakeholders whether they are preparers, transmitters or users of business data in the financial information supply chain can benefit from the use of XBRL.

4. What is the future of XBRL?

XBRL has a bright future ahead of it that goes way beyond the current focus on regulatory reporting and compliance. Businesses that are now creating XBRL filings for regulatory bodies should be thinking about how they can leverage their investment in understanding and using XBRL to drive more consistent and comparable internal reporting. By tagging data at the account/transaction level, by investigating how XBRL can help to deliver new holistic reports that integrate and connect financial and non-financial data, and by leveraging emerging online XBRL data streams for better industry performance and peer group analytics, every business can power its own journey towards financial transformation.

5. Who developed XBRL?

The Extensible Business Reporting Language (XBRL) is managed and promoted by XBRL International, a not-for-profit consortium, with companies, government bodies and other organizations as its members. Currently over 600 organizations are associated with XBRL International. It is comprised of jurisdictions, which represent countries, regions or international bodies and which focus on the progress of XBRL in their area.

6. 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.

7. What is Costing Taxonomy?

Costing Taxonomy is a dictionary of all cost elements required in the cost audit report and compliance report. The costing taxonomy contains the properties and interrelationships of all these cost elements for the purposes of capturing the required reporting data in XBRL format.

8. Where can I find the Costing Taxonomy and related Business Rules?

The Costing Taxonomy and related Business Rules including sample instance documents can be downloaded from the website of MCA (http://mca.gov.in).

9. What is the use of other files given in xml / xsd format along with the taxonomy?

Taxonomy file has extensions of XML and XSD. An XBRL processor (computer software that understands and/or manipulates XBRL documents) will need those XML and XSD documents.

10. How and where can a person interested in filing cost audit report and compliance report in XBRL format take training for the same?

The Institute of Cost Accountants of India has been organizing XBRL training programmes across the country to familiarize interested professionals with the Costing Taxonomy. The details of the programmes are available on the website of the Institute (www.icmai.in) as well the website of MCA (www.mca.gov.in).

11. How can the cost audit report and compliance report is converted into the XBRL format?

XBRL is an open source technology. Any of the following methods can be adopted to create the instance document required for filing of the respective reports.

- XBRL-enabled software packages developed by different software vendors which support the creation of cost reports in XBRL format can be used to create the necessary document.
- Various elements of Cost Audit Report and Compliance Report can be mapped into XBRL tags of the costing taxonomy using specialised XBRL software tools specifically designed for this purpose.
- Different third party packages can be integrated into the existing accounting systems to generate XBRL Cost statements.
- There are various web based applications available that take input reports in various formats viz. Microsoft Excel etc. and transform them into XBRL format.

The methodology adopted by an individual company will depend on its requirements and the cost accounting software and systems being used and other factors.

12. Does preparing XBRL Documents mean that the entire report has to be typed (Data Entry) in XBRL?

XBRL software is required for creating instance documents. The way of working and sequence of entering data in the software may be different, but the output, i.e. the XBRL instance document has to be same irrespective of the software used. The softwares developed by individual vendors being different, some may require data entry to be done, while some others may facilitate tagging on the document itself.

13. Is the XBRL software required to be purchased from a software vendor or MCA will provide the software. Which agency should I approach to get the XBRL software?

XBRL instance document creation software is required to be purchased from the software vendors in the market. This software is used to create XBRL instance documents for uploading on the MCA portal. MCA21 system provides facility for validation of the instance document and filing of the same. MCA is not recommending any specific XBRL software.

There are several software vendors in the market, who are in the business of developing XBRL software tools. The users are free to choose the one that suits their requirements in order to create XBRL documents for filing.

14. What is the purpose of the Final Costing Taxonomy and the Business Rules?

The final costing taxonomy published by MCA is to be used for mapping of individual cost elements of the company to the Taxonomy. The Business Rules of the Costing Taxonomy published by the MCA provides details of the character of individual elements of the taxonomy and the validation checks built into the system to ensure correctness of the information.

15. What process is to be followed to file the reports in XBRL Format?

The following steps have to be followed in sequence to file the reports in XBRL Format:

- Mapping the individual cost elements of the company to the elements of the costing taxonomy.
- Populating the relevant data in the software/filing tool.
- Creating an XBRL instance document.
- Download XBRL validation tool.
- Validating the instance document with the validation tool of MCA.
- Pre-scrutiny of the instance document.
- Use available tool to convert the instance document to a human readable pdf format and check correctness of data.
- Attaching the instance document to the e-Form and filing on MCA portal.

16. Is it necessary to convert the instance document (xml) into a human readable / pdf format?

Though technically, it is not required to convert the xml instance document into human readable / pdf format, it is advisable to generate a human readable format of the instance document to ensure its correctness by matching with relevant Cost Audit Report or Compliance Report prepared by the Cost Auditor/Accountant before it is uploaded.

17. Whether it is required to validate the instance document created before uploading the same on MCA portal?

Yes, validating the instance document is a pre requisite before filing the Cost Audit Report and Compliance Report on MCA portal. A tool has been provided on the MCA portal for validating the generated XBRL instance document. You are required to download the tool from the portal and validate the instance document before uploading the same. The MCA XBRL validation tool can be downloaded from the XBRL website of the Ministry of Corporate Affairs.

18. Will extension to the taxonomy be allowed based on company specific requirements?

No extensions are allowed in the Costing Taxonomy. This means the tagging is required to be done with the elements already defined in the Costing Taxonomy and additional elements cannot be added.

19. When we are filing Cost Audit Report/ Compliance in XBRL format, then whether the previous Form-I and Form-A are still in existence or not?

Previous forms are no longer in existence. Only the new forms I-XBRL and A-XBRL are to be used for filing of Cost Audit Report and Compliance Report respectively in the XBRL format.

1. The primary purpose of establishing quality control policies and procedures deciding on clientevaluation 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.

2. 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.

3. 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.

4. Financial auditor submits reports to the

(a) Shareholder

~~(b) Board of director~~

(c) Debtors

(d) Employees

5. Auditor has got no lien on

(a) Audit Note Nook

(b) Audit working papers

(c) Books to Accounts of Client

~~(d) Both (a) and (b)~~

6. Internal audit is conducted

~~(a) Periodically~~

(b) Throughout the year

(c) Once in a year

(d) Once in Five years

7. Test checking is done when there is an effective system of___________.

~~(a) Internal control~~

(b) Internal audit

(c) Internal check

(d) Both (a) and (b)

8. Treating revenue expenditure as capital expenditure is an example of error of
   (a) Principle
   (b) Compensating
   (c) Clerical
   (d) None of the above
9. 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.
10. Management audit________________on financial matters.
   ~~(a) Involves~~
   (b) Only concentrate
   (c) Does not concentrate
   (d) None of these
11. The main objectives of management audit is to_________________.
   (a) Suggest improvement in methods of operations
   (b) Framing basic policies for the organisation
   (c) Setting up an organizational framework
   (d) None of these
12. 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~~
13. The main emphasis of Management Audit:
   (a) Problem solving
   (b) Problem identification
   (c) Problem definition
   (d) Problem avoidance
14. Management audit is normally presumed to be a__________________into a performance of a manageror group of managers.
   ~~(a) Routine investigation~~
   (b) Non-routine investigation
   (c) Auditing

15. 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

16. 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

17. 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

18. 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

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

    ANSWER; Article 243Z of the Constitution.

    Article 243J of the Constitution states that the Legislature of a State may, by law, make provisions concerning the maintenance of accounts by the Panchayats and the auditing of such accounts.

    Article 243Z of the Constitution states the audit of accounts of Municipalities. The legislature of a State may, by law, make provisions concerning the maintenance of accounts by the Municipalities and the auditing of such accounts.

1. The government also engages in commercial activities and for this purpose, it may incorporate
_________ type of entities.
   (a) Five
   (b) Three
   (c) Many
   ~~(d) Various.~~

ANS; Three.

The government also engages in commercial activities and for this purpose, it may incorporate thefollowing types of entities:

(a) Departmental enterprises engaged in commercial and trading operations.

(b) Statutory corporations created by specific statutes such as LIC, Oil Marketing Companies (OMC) etc.

Government companies, set up under the Companies Act, 2013.

2. 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
3. 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 thatmeets standards required by courts of law.
   (d) The investigatory arm of the Securities and Exchange Commission.
4. When the auditor tests the documents by keeping them side by side then it is known as_________.
   (a) Test of impossibility.
   (b) Test of absurdity.
   (c) Juxtaposition test.
   (d) None of the above.
5. 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.

6. ______ happens when the fraudster avails multiple loans for the same property simultaneously for atotal amount over the actual value of the property.

   (a) Phishing.

   ~~(b) Window dressing.~~

   (c) Shot gunning.

   (d) Skimming.

7. Pressure, opportunity &______are the aspects of a fraud triangle.

   (a) Rationalization.

   (b) Creation.

   (c) Commitment.

   (d) None of the above.

8. A case where an employee doesn't take travel advance but always pays from his pocket is a__.

   (a) Red flag.

   (b) Green flag.

   (c) Amber flag.

   (d) White flag.

9. 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.~~

10. Significant increase in working capital borrowing as a percentage of turnover is a______.

    (a) Red flag.

    (b) Green flag.

    ~~(c) Amber flag.~~

11. Analysing non-verbal cues is important for a forensic auditor while_________.

    (a) Interviewing a suspect.

    (b) Interrogating a suspect.

    (c) (a) & (b) both.

    (d) None of the above.

12. A model categorizing known frauds which lists about 49 different individual fraud schemes groupedby categories and subcategories is known as_______.

    (a) Fraud triangle.

    (b) Fraud square.

    (c) Fraud model.

    (d) Fraud tree.

13. The principle of 3D vision includes_______.
    (a) Time dimension analysis.
    (b) Space dimension analysis.
    (c) Both (a) & (b).
    (d) None of the above.

14. “Fraud is a deliberate act of omission or commission by any person, carried out in the course of a banking transaction or the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank” is a definition given by:
    (a) SEBI.
    (b) RBI.
    (c) ICAI.
    (d) ACFE.

15. Prevention of Money-Laundering Act, 2002 is?
    (a) Act No. 15 of 2003
    (b) Act No. 22 of 2003
    (c) Act No. 11 of 2003
    (d) Act No.3 of 2003

16. 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~~

17. “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

18. “Payment system” as defined under PMLA Act, 2002 does include? (i) systems enabling credit cardoperations, debit card operations (ii) smart card operations (iii) money transfer operations

(a) Only (i)

(b) Only (iii)

(c) Only (i) and (iii)

(d) All the above

19. “Punishment for money-laundering” is defined under which Section of PMLA Act 2002?

(a) Section 3

~~(b) Section 7~~

(c) Section 4

(d) Section 10

20. “Precious metal” as defined by PMLA Act, 2002 does not include?

(a) Gold

~~(b) Palladium or rhodium~~

(c) Diamond

(d) Platinum

21. “Precious stone” as defined under PMLA Act, 2002 does not include?

(a) Diamond

(b) Graphite

(c) Emerald

(d) Sapphire

22. 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~~

23. Whoever commits the offence of money-laundering shall be punishable with rigorous imprisonmentfor a term which shall not be less than three years but which may extend to?

(a) Three Years

(b) Five Years

(c) Seven years

(d) Ten years

24. Whoever commits the offence of money-laundering, which relates to any offence specified under paragraph 2 of Part A of the Schedule, shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to?

(a) Three Years

(b) Five Years

(c) Seven years

(d) Ten years

25. 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

26. 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

27. 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

1. **What are the key laws governing anti-money laundering activities in India?**

Solution:

The Prevention of Money Laundering Act, 2002 ("PMLA") along with the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 ("Rules") are the principal laws enacted to prevent money laundering activities in India.

Specialised authorities are dealing with money laundering issues such as the Reserve Bank of India / Securities and Exchange Board of India("SEBI") / Insurance Regulatory and Development Authority ofIndia which also prescribe guidelines on anti-money laundering standards based on PMLA and Rules.

Q; What is money laundering?

- Money laundering is the processing of criminal proceeds i.e., profits generated from criminal acts, to disguise their illegal origin.
- For example, embezzlement, insider trading, bribery, computer fraud schemes, illegal arms sales, smuggling, and the activities of organized crime can produce large profits and create the incentive to legitimize the ill-gotten gains through money laundering.

Q; WHAT is a 'scheduled offence'?

- There is a list of offences provided under a schedule in the PMLA. These offences are called scheduled offences.
- The schedule consists of three parts specifying offences from thirty legislations.
- Some of the major legislations covered in the schedule include Indian Penal Code, 1860, Narcotic Drugs and Psychotropic Substances Act, 1985, Explosive Substances Act, 1908, Unlawful Activities (Prevention) Act, 1967, Arms Act, 1959, Wild Life (Protection) Act, 1972, Prevention of Corruption Act, 1988, the Companies Act, 2013 and the Customs Act, 1962.

Q; What is the punishment for the offence of money laundering

- The PMLA prescribes rigorous imprisonment for at least 3 (three) years which may extend up to 7 (seven) yearsand also a fine.
- In the event that the offence of money laundering is related to the Narcotic Drugs and Psychotropic Substances Act, 1985, the rigorous imprisonment may extend up to 10 (ten) years.
- If an offence of money laundering is committed by a company, then every person in charge of and responsible for the conduct of the business of the company at the time of such contravention as well as the company will be deemed to be guilty and will be liable to be proceeded against and punished accordingly.

Q;Which Authorities Regulate the PMLA?

- The Directorate of Enforcement in the Department of Revenue, Ministry of Finance is responsible for investigating offences of money laundering.
- The Financial Intelligence Unit - India ("FIU-IND") under the Department of Revenue, Ministry of Finance is the central national agency responsible for receiving, processing, analysing, and disseminating information relating to suspected financial transactions to enforcement agencies and foreign FIUs.

Q; What are the compliances/obligations prescribed under PMLA and the Rules?

- Every banking company, financial institution, intermediary, or a person carrying on a designated business or profession ("Reporting Entity") is required to verify the identity of their clients and the beneficial owner, maintain records of all transactions and documents evidencing identity of its clients as well as beneficial owners and periodical furnishing of information related to certain transactions

1. **Who is considered a 'beneficial owner'?**

Solution:

The beneficial owner for the verification process is as mentioned below:

S. No.	Nature of Client	Description (Beficial Owner)
(i)	Company	Natural person, who acting alone or together has a controlling ownership interest or who exercises control through other means. 'Controlling ownership interest' – ownership of or entitlement ot more than 25% of shares or capital or profits of the company. 'Control' – includes the right to appoint majority of the directors or to control the management or policy decisions such as by virtue of their shareholding or management rights or shareholders agreements or voting agreements.
(ii)	Partnership Firm	Natural person, who acting alone or together has ownership of or entitlement to more than 15% of the property or capital or profits of such association or body of individuals.
(iii)	Unincorporated association or body of individuals	Natural person, who acting alone or together has ownership of or entitlement to more than 15% of the property or capital or profits of such association or body of individuals.
(iv)	Trust	Includes identification of the author of the trust, the trustee, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

1. **What are the records that are required to be maintained by the Reporting Entity? How long do these records have to be maintained?**

Every banking company, financial institution, intermediary, or a person carrying on a designated businessor profession ("Reporting Entity") is required to verify the identity of their clients and the beneficial owner, maintain records of all transactions and documents evidencing identity of its clients as well as beneficial ownersand periodical furnishing of information related to certain transactions.

The records maintained must contain information including:

(a) the nature of the transactions;

(b) the amount of the transaction and the currency in which it was denominated;

(c) the date on which the transaction was conducted and

(d) the parties to the transactionto enable the Reporting Entity to reconstruct individual transactions.

The information relating to the transaction must be maintained for five years from the date of the transaction between a client and the Reporting Entity.

The records relating to the identity of clients and beneficial owners aswell as account files and business correspondence must be maintained for five years after the business relationship between a client and the Reporting Entity has ended or the account has been closed, whichever is later.

2. What type of information is required to be furnished by the Reporting Entities and to whom?

Solution:

The information required to be furnished by the Reporting Entities is provided in the table below. This informationis required to furnish information to the Director of FIU-IND.

Sr. No.	Description	Due Date
(i)	All cash transactions of the value or more than INR 1,00,000 or its equivalent in foreign currency.	15th day of the succeeding month
	All series. of cash transactions integrally connected to each other which have been valued below INR 1,00,000 or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of INR 1,00,000 or its equivalent in foreign currency	15th day of the succeeding month
(ii)	All cash transactions where forged or counterfeit currency notes of bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions	15th day of the succeeding month
(iii)	All transactions involving receipts by non- profit organisations of value more than INR 1,00,000 or, its equivalent in foreign currency	15th day of the succeeding month
(iv)	All cross-border “wire transfers of the value of more than INR 5,00,000 or its equivalent in foreign currency where erther the origin or destination of fund is in India.	15th day of the succeeding month
(v)	All purchase and sale by any person of immovable property valued at INR 5,00,000 or more that ts registered Py the reporting entity, as the case may be.	15th day of the month succeeding the quarter
(vi)	All suspicious transactions whether or not made in cash	Not later than 7 (seven) working days on being satisfied that the transaction is suspicious

1. Who is responsible to furnish the information from the Reporting Entity?

Solution:

Every Reporting Entity is required to appoint two officers i.e., Designated Director and the Principal Officer. TheDesignated Director is required to ensure overall compliance with the obligations under PMLA and Rules. The Principal Officer is responsible for the overall compliance of the Reporting Entity. Accordingly, the Principal Officer is responsible to furnish the information promptly to the Director of FIU-IND.

Q; What are the penalties for non-compliance with the client due diligence process, maintenance of records, and reporting obligations of the Reporting Entities?

Solution:

On failure to comply with the diligence, maintenance, or reporting obligations by the Reporting Entities, theDirector of FIU-IND may:

1. Issue a warning in writing; or
2. Direct such Reporting Entity or it's Designated Director on the board or any of its employees, to comply withspecific instructions; or
3. Direct such Reporting Entity or its Designated Director on the board or any of its employees, to send reportsat such interval as may be prescribed on the measures it is taking; or
4. Impose a monetary penalty of not less than INR 10,000 but may extend up to INR 100,000 on such ReportingEntity or its Designated Director on the board or any of its employees for each failure.

Q;What is the forum for appeal against the order of the Director of FIU-IND for noncompliance withdiligence, maintenance, or reporting obligations?

Solution:

Any reporting entity aggrieved by any order of the Director of FIU-IND may appeal before the appellate tribunal constituted under the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976. This appeal must be made within 45 days from the date on which a copy of the order made by the Director of FIU-INDis received.

Q;**What is a forum for appeal against the order of the appellate tribunal?**

Solution:

A person aggrieved by the decision of the appellate tribunal may file an appeal to the High Court within 60 daysfrom the date of communication of the decision of the appellate tribunal to it on any question of law or fact arisingout of such decision. The High Court may accept an appeal within a further period of 60 days if sufficient cause for the delay is shown.

Q;**What is the court of the first instance to try and levy punishment for the offence of money laundering?**

Solution:

The central government has designated special courts, in consultation with the Chief Justice of the High Court, for trial and punishment of the offence of money laundering. The list of special courts designated by the central government can be accessed.

Q;What is the court of appeal against the order of the special court?

Solution:

An appeal or revision may be made to the High Court within the local limit of the jurisdiction of the special courts.

MANAGEMENT AUDIT IN DIFF FUNCTIONS

- A Corporate or Business Objective is a result that a company aims to achieve.
- usually includes a time frame and lists the resources available to fulfil the objective.

- **<u>Difference between business goal and objective</u>**

Aspect	Business Goal	Business Objective
Definition	Broad vision for the long term	Specific targets for short to medium term
Timeframe	Long-term	Short to medium-term
Scope	Strategic	Tactical
Nature	General	Specific and measurable
Measurement	Subjective	Quantifiable
Flexibility	Less flexible	More adaptable
Alignment	Guides overall direction	Directly contributes to goals
Importance	Sets vision	Provides actionable steps

A company's business objectives provide steps a picture of how it plans to achieve its goal with timeframe and resource requirement. It also states how long it will take, and what resources are available. A business goal is vague in comparison.

Objectives serve as the basis for creating policy and gauging performance.The exact steps a company plans to take to reach its goals or aims are its business objectives.

- Business Objectives-Small Companies -

    1) <u>Profit maximization,</u>
    2) <u>growth,</u>
    3) <u>survival.</u>

Corporate culture

- Corporate culture refers to the shared values, beliefs, attitudes, and practices that characterize an organization
- differs from Organisation to Organisation.
- depends values nurtured by the Promoters, Management and Employees
- In simple terms, corporate culture is the operating working environment and is shaped by the way people conduct their work, the way customers are treated, the way of leadership and the way employees interact in the corporate.

Factors That Shape an Organisation's Culture.

- **Values**
  At the heart of organisations, cultures are commonly shared values. These common values include:
  � Outcome Orientation: Emphasizing achievements and results.

  � People Orientation: Insisting on fairness, tolerance, and respect for the individual.

  � Team Orientation: Emphasizing and rewarding collaboration.

  � Attention to Detail: Valuing precision and approaching situations and problems analytically.

  � Stability: Providing Security and following a predictable course.

  � Innovation: Encouraging experimentation and risk-taking.

  � Praising failure: To nurture risk taking nature and innovative ideas, failures also praised.

  � Aggressiveness: Stimulating a fiercely competitive spirit

- **Degree of Hierarchy**

  The degree of hierarchy is the extent to which the organisation values traditional channels of authority. An organisation with multiple levels and layers hinders prompt decision,the so-called bureaucratic attitude. A balanced approach is always commendable.

- **Degree of promptness and Urgency**

  The degree of urgency defines how quickly the organisation needs to drive decision-making and innovation. Quick response to dynamic market scenario, is the best way to survive.

- **People Orientation or Task Orientation**

  1) An organisation with a strong people orientation tends to put people first when making decisions and believes that people drive the organisation’s performance and productivity.
  2) An organisation with a strong task orientation tends to put tasks and processes first when making decisions and believes that efficiency and quality drive organisation performance and productivity

- **Functional Orientation**

Departmental Focus: Each department or function has its own area of focus.

Specialization: Emphasizes specialized skills and tasks.

Clear Roles: Employees have clear job roles within their departments.

Standardization: Focuses on standardizing processes.

Training: Provides specialized training for employees.

Collaboration: Encourages collaboration across departments.

Departmental Goals: Each department sets its own goals aligned with the overall objectives.

Corporate image

- **Perception**: Corporate image is the overall perception or impression that the public holds about a company.
- **Reputation**: It reflects the company's reputation, integrity, and trustworthiness in the eyes of stakeholders.
- **Customer Experience:** Corporate image is influenced by the overall customer experience, including the quality of products or services and customer interactions.
- **Employee Perception**: How employees view the company and their experiences within it also contributes to the corporate image.
- **Social Responsibility**: Corporate image is impacted by the company's commitment to social responsibility, sustainability, and ethical practices.

  Corporate image depends on the perception of others. Like corporate image from view point of customer,supplier,government,stakeholders,employees,society.etc

EVALUATION OF CORPORATE IMAGE

Following steps to valuate corporate image

- Prepare a list of desirable attributes
- Group them functionally and specify the qualifications
- Assign weights to each attributes based on their relative importance
- Involve experts in rating the attributes and qualifications
- Summarise the rating under the selected groups and present a composite evaluation to the management.

- **Fill in the blanks**

1. Cost of repairs and maintenance measured as per principles and methods defined under CAS
.
2. The cost incurred to remove the overlying material from the mine site is measured as per CAS
.
3. CAS – 1 Classification of cost is effective from_________.
4. Employee cost, which cannot be directly attributed to a particular cost object is called_________.
5. Interest on Working capital is part of_________Cost.

Fill in the Blanks

1.	CAS-12
2.	CAS-23
3.	01.04.2015
4.	Indirect Employee Cost
5.	Finance

- **Fill in the Blanks**

1. Rights and Duties of a Cost auditor is defined under section_______of the Companies Act, 2013.
2. A Company is prohibited under section________of the Cost and Works Accountants Act, 1959 to
practice as Cost Accountants.
3. A Cost Auditor found guilty of deliberately providing false report and certificate will be liable forpunishment under section_______the Companies Act, 2013.
4. Relatives of any partner of the firm holding any security of or interest in the company of face valueexceeding `______lakh can not be appointed as the Cost Auditor of that company.
5. The casual vacancy caused due to death of cost auditor to filled within________days.

1.	Section 143
2.	Section 26
3.	Section 447
4.	1 (one)
5.	30

1. 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

2. Which of the following is not forming part of Cost of transportation?

(a) Cost of transport

(b) Transit insurance

(c) Demurrage Charge

(d) Local Octroi charges

3. Idle capacity is the difference between________. CHECK

(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

4. 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

5. 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

6. 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)

7. The applicability of cost audit under Companies (Cost Records & Audit) – Rules, 2014 for regulated
industries having overall annual turnover during immediate preceding financial year is_____.

(a) `25.00 crores or more

(b) `35 .00 crores

(c) `50.00 crores or more

(d) `100.00 crores

8. The Company has to upload CRA-4 electronically to the MCA under the rule_______of Companies
(Cost Records & Audit) Rules, 2014

(a) Rule 5 (1)

~~(b) Rule 6 (2)~~

(c) Rule 4 (6)

(d) Rule 6 (6)

Fill in the Blanks

1. Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit
report in form_____.

2. Company should furnish the Cost Audit report within a period of______days from the date of receipt
of a copy of the cost audit report to the Central Government.

3. The cost auditor shall forward his duly signed report to the Board of Directors of the company withina period of 180 days from the closure of the financial year i.e. September of the relevantfinancial year.

4. The maximum fine for default in provisions of section 148 of the Companies Act, 2013 is ________

Fill in the Blanks

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

Q- M/s. ABC Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under

Rule 3 is ` 7 croreTurnover of Table B

Products under Rule 3 is ` 8 crore

Turnover of other products is ` 24

crore

Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 39 crore i.e. ≥ ` 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products irrespective of individual turnover of the products.

- [b] - Overall Turnover is ` 39 crore i.e ≤ ` 50 crore and aggregate Turnover of the Products under Rule 3 (Table A&Table B products) is Rs. 15 Crore, which is less than the threshold limit of ` 25 crore.

  Since the Conditionsof Rule 4(1) and 4(2) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are not fulfilled,hence Cost Audit is not applicable for products either under Table A or Table B

Case 3: M/s. B. K. Pvt. Ltd. furnishes the following information in regard to the immediately preceding Financial Year:Turnover of Table A Products under Rule 3 is ` 11 croreTurnover of Table B Products under Rule 3 is ` 14 croreTurnover of other products is ` 28 crore

Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 53 crore i.e. ≥ ` 35 crore. Therefore Cost Records are required to be maintained for
Table A and Table B Products.

(b) Overall Turnover is ` 53 crore i.e. ≥ ` 50 crore and aggregate Turnover of the Products under Rule 3 (TableA & Table B products) is ` 25 Crore. Since the conditions of Rule 4(1) of the Companies (Cost Records andAudit) Rules, 2014 (as amended) are fulfilled, therefore Cost Audit is applicable only for Table A Products.

Case 4: M/s. Sun Enterprise Ltd. furnishes the following information in regard to the immediately precedingFinancial Year: Turnover of Table A Products under Rule 3 is ` 19 croreTurnover of Table B Products under Rule 3 is ` 15 croreTurnover of other products is ` 76 crore

Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 110 crore i.e. ≥ ` 35 crore. Therefore Cost Records are required to be maintained for
Table A and Table B Products.

(b) Overall Turnover is `110 crore i.e. ≥ ` 100 crore and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is ` 34 Crores i.e. ≥ ` 25 Crore but ≤ ` 35 crore. Conditions of Rule 4(1) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are fulfilled and cost audit is applicable forTable A Products.

Though the overall turnover is more than ` 100 crore, aggregate Turnover of the Products under Rule 3 (Table A& Table B products) is less than ` 35 crore [Rule 4(2)]. That is why, Table B products are not covered under cost audit

Case 5: M/s. Alpha Pvt. Ltd. furnishes the following information in regard to the immediately preceding Financial Year:Turnover of Table A Products under Rule 3 is ` 20 croreTurnover of Table B Products under Rule 3 is ` 22 croreTurnover of other products is ` 63 crore
Find out the applicability of :

(a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

(b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

(a) Overall Turnover is ` 105 crore i.e. ≥ ` 35 crore. Therefore Cost Records are required to be maintained for
Table A and Table B Products.

(b) Overall Turnover is ` 105 crores i.e. ≥ ` 100 crores and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is ` 42 Crores i.e. ≥ ` 35 crores. Since the conditions of Rule 4(1) and Rule 4(2) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are fulfilled, Cost Audit is applicablefor both Table A and Table B Products.