



FINAL EXAMINATION  
MODEL QUESTION PAPER

SET 1  
TERM – JUNE 2023

PAPER - 17  
COST AND MANAGEMENT AUDIT

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.  
Where considered necessary, suitable assumptions may be made and  
clearly indicated in the answer.

**GROUP – A : Cost Audit [50 Marks]**

**SECTION – A**

**Question No. 1 and 5 are compulsory and answer any two from Question No. 2, 3 & 4.**

1. (a) Choose the most appropriate answer to the following questions with justification. 1 mark will be awarded for correct answer and 1 mark for justification.: [5 × 2 = 10]

- (i) Cost Audit was first introduced in the year \_\_\_\_\_. Write the prime rationale behind such introduction.
- 1959
  - 1965
  - 1949
  - 1975
- (ii) In case Royalty and Technical Know-how fee is not directly traceable to a cost object then it can be assigned on the basis of \_\_\_\_\_. Write the justification behind the basis selected by you.
- Units produced
  - Units sold
  - Sales value
  - All of the above
- (iii) Section 2(38) of the Companies Act, 2013, defines the term \_\_\_\_\_ which includes an engineer, a Valuer, a Chartered Accountant, a Company Secretary, a Cost Accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force. Mention the major reason behind such inclusion.



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- a. Certified Expert  
b. Authorized Signatory  
c. Expert Authority  
d. Expert
- (iv) Remuneration of the Non-Executive Directors is treated as \_\_\_\_\_.  
Briefly justify your answer.
- a. Employee Costs  
b. Administrative Overheads  
c. Non-Cost Item  
d. Selling & Distribution Overhead
- (v) \_\_\_\_\_ is not a precondition to be fulfilled before conducting Cost Audit.
- a. Objective of Cost Audit  
b. Area, nature and scope  
c. Statutory deadlines  
d. Provisions of the Competition Law
- Provide a brief justification.

**SECTION – B**

**Answer any 2 Questions:**

**[16 × 2 = 32]**

2. (a) State the objectives of the Cost Accounting Standards and the purpose of promulgating such Standards. **[5]**
- (b) The following numbers have been obtained from the Cost Accounting Records of Zenith Ltd.:

<b>Year ended 31st March</b>	<b>2022</b>	<b>2021</b>
<b>Particulars</b>	<b>(Amount in ₹ lakhs)</b>	
Net Sales	14,240	11,400
Other Income	900	600
Export Incentives	160	120
Increase in Value of Stock of Finished Goods	60	30
Raw materials consumed	5,280	4,320
Direct wages, salaries, bonus, gratuity etc.	1,320	1,056



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Power & Fuel	720	576
Stores and spares	480	420
Other manufacturing overheads	1,290	1110
Administrative Overheads :		
Audit fees	108	90
Salaries & commission to directors	144	120
Other overheads	780	660
Selling and distribution overheads :		
Salaries & Wages	108	90
Packing and forwarding	60	48
Other overheads	750	600
Total depreciation	360	360
Interest Charges :		
On working capital loans from Bank	180	150
On Long term loan from a financial institution	270	210
On Debentures	90	90
Tax paid including provisions	948	600
Dividend paid	1480	810

The company has requested you to calculate the following parameters as stipulated in PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2022 and March 31, 2021:

- (i) Value addition
- (ii) Earning available for Distribution
- (iii) Distribution of Earning to the different claimants **[4 + 3 + 4 = 11]**

3. (a) Examine the duties of a Cost Auditor to report fraud as per the related provisions of the Companies Act, 2013 with narratives on objectives and purpose it will serve from the perspective of stakeholders. **[8]**

(b) The following data of Pinnacle Star. Ltd. have been made available to you:

Particulars	2019 - 20	2020 - 21	2021 - 22
Installed Capacity—Ton	250	250	250
Production—Ton	240	230	125
Cost Per Ton (₹)	10,000	10,770	16,600

The poor capacity utilisation in 2021-22 was due to abnormal power-cut. The increases in costs were 5% in 2020-21 and 7% in 2021-22 based on 2019-20



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- (i) Calculate the abnormal cost due to power cut.
- (ii) How would you treat these abnormal cost? **[6 + 2 = 8]**
4. (a) Recommend the checklist for auditing sales revenue of manufactured products from the perspectives of Cost Audit. **[7]**
- (b) (i) Analyse the requirements which are to be considered and worked upon for accomplishing the objectives of cost audit.
- (ii) Prepare a list of documents for conducting Cost Audit and briefly narrate the audit process to be followed using the documents listed by you. **[5 + 4 = 9]**

**SECTION – C**

**[8 × 1 = 8]**

5. (a) Super Star Manufacturing Ltd. (SSML), a listed company, produces a product which comes under Non-Regulated Sector and classified under Customs Tariff Act (CTA). The manufacturing process also generates by-products, waste and scrap. Total Turnover of the Company for the financial year 2021-22 is ₹160.00 Crore, the breakup of which is as under:

Sr. No.	CTA Heading	Additional Details	Turnover (₹/Crore)
1.	7401	Waste & Scrap	30
2.	7405	Products Manufactured	80
3.	7406	By Product	50
<b>TOTAL</b>			<b>160</b>

SSML has solicited your considered views in the form of a letter to the Managing Director of SSML, advising with justifications about the applicability of provisions of maintenance of cost records and audit thereof keeping in view that the turnover of all the above items individually is below ₹100.00 crore. **[8]**



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**GROUP – B : Management Audit; Internal Audit, Forensic Audit  
and Anti-Money Laundering [50 Marks]**

**Question No. 6 and 10 are compulsory and answer any two from  
Question No. 7, 8 & 9.**

**SECTION – A**

**6. Choose the most appropriate answer to the following questions with brief justification  
for the selection. [5×2=10]**

- (i) For on-line product sale by a Company which one of the following areas the Internal Audit Head should focus on and why?
- Price difference with brick and mortar shop
  - (b) Returns by Customers (30% of sales)
  - (c) COD (Cash On Delivery) collection
  - (d) IT Controls
- (ii) On which of the following does scrap sale value realization depend and why?
- Segregation of scrap
  - Vendor
  - As is where is basis
  - Seller
- (iii) Which of the following is based on the principle of ‘division of work’ and why?
- Internal Control
  - Internal Check
  - Internal Audit
  - All of the above
- (iv) Which of the following is a component of cyber security and why?
- Internet of Things
  - AI
  - Database
  - Attacks
- (v) Which of the following is NOT a main element of purchasing function and why?
- Placing orders
  - Receiving purchase invoices
  - Goods received
  - Decisions at board level on whether to incur capital expenditure



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**SECTION – B**

**Answer any two questions.**

7. (a) (i) Briefly analyse the benefits that can be derived from ‘energy audit’?  
(ii) Briefly narrate methodologies for ‘energy audit’. [3+5=8]
- (b) List certain gaps that may be found in an Energy Audit Report and recommend corrective actions to be initiated to fill up the gaps. [3+5=8]
8. (a) Analyse the rationale behind conducting Management Audit and the major differences with Internal Audit. [8]
- (b) Prepare a list of the desirable qualities of a Management Auditor with brief narratives for each of them. [8]
9. (a) Evaluate the essential features of a good Management Audit Report. [7]
- (b) Critically analyse the objectives and features of Environmental Audit. [9]

**SECTION – C**

**(Answer any One)**

**[8x1=8]**

**10. (a) Room Sales and Cash Collections**

- (i) Grade-wise (Ordinary, Luxury, Super Luxury) Room tariff and booking as per Front Office and verification with Billing Desk to ensure appropriate billing for room-nights. Room Service (food drinks, laundry), Minibar (Fridge kept inside room with food, drinks and beverage) material, sports facility usage etc. recorded and billed appropriately for collection. There are various sales points scattered in a hotel and sales are both for cash and credit. The control over cash is very important. The charge for room sales is made from the guest register, and tests are to be carried out to ensure that the correct number of guests are charged for the exact period of stay. Any difference between the rate charged to the guests and standard room rent is to be investigated to see that it is properly authorized. Credit Card/Debit Card,



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cash, Foreign Exchange and Cheque (Corporate Bookings), RTGS/NEFT etc. to be tallied with Bill value.

- (ii) Daily room occupancy report, Check In – Check Out Record and Billing for occupancy to be validated on daily basis. The total sales reported with the total bills issued at each sales point have to be reconciled.
  - (iii) Food Bills with KOT (Kitchen Order Token) and signed Customer copy as evidence for consumption, other facility charges with respective facility usage token as per prevalent tariff. Special care must be taken in respect of bills issued to customers who are staying in the hotel, because they may not be required to pay the bills immediately in cash but at a future date or by credit cards. Billing is to be done room-wise. It must be ensured that all customers pay their bills on leaving the hotel or within specified dates.
- (b) You have audited the ‘Quality Process’ of Good Limited and observed few areas of concern, which are supposed to be worked upon by the entity to improve the product quality. The draft audit report shared with HOD Quality and a discussion to take place for improvement and adoption. Prepare a brief mock discussion with QC Head.