

**Paper-17 - Cost Audit & Operational Audit**

**Time allowed-3hrs**

**Full Marks: 100**

**Working Notes should form part of the answer.**

**“Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.”**

**SECTION I (50 Marks)**

**(Cost Audit)**

**Answer Question No. 1 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.**

**(1) (a) Choose the most correct answer among four alternative statements: [8×1=8]**

- (i) Every cost auditor appointed under sub-rule (2) shall, within\_\_\_\_days of receipt of letter of appointment, inform his appointment to the \_\_\_\_\_ through \_\_\_\_\_ mode.
- (ii) Para 5 of Annexure to Cost Audit Report is for \_\_\_\_\_ Statement.
- (iii) Gross sales include all items of income considered for “Revenue from Operations” net of \_\_\_\_\_.
- (iv) Net Sales means Gross revenue from operations of company minus \_\_\_\_\_ recovered.
- (v) Rule 3 would be applicable to such eligible \_\_\_\_\_ in respect of their Business operations within India and not outside.
- (vi) Cost Accountant working as permanent employee can certify the \_\_\_\_\_ Report of the company where he is employed.

**(b) State whether following statements are “True” or “False”. Reasons or justification is needed for the answer. [6×1=6]**

- (i)** Every company required to maintain Cost Records under Section 209(1)(d) of the Companies Act is required to get such records audited under Section 233(B) of the Companies Act.
- (ii)** The Cost Auditor is not a member of the Audit Committee of the Company.
- (iii)** Under Para 11 of the Annexure to Cost Audit Report, the Cost Auditor gives Reconciliation of only 2 years.
- (iv)** Value addition is to be computed based on Cost record data.
- (v)** Export Benefits are to be considered as a part of other operating income.
- (vi)** Retail Company with service tax registration is engaged in telecommunication services. Hence it is covered under Companies (Cost Accounting Records) Rules, 2011.

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**(2)(a)** What are the steps to be taken by the cost auditor to ensure proper maintenance of cost records? **(12 Marks)**

**(b)** As a cost accountant of a manufacturing company, how would you deal with over and under absorption of overhead? **(6 Marks)**

**(3)(a)** Discuss the basis of apportionment for primary distribution of overhead. **(9 Marks)**

**(b)** List out the records to be maintained by companies to which Cost Accounting Record Rules, 2011 is applicable? **(9 Marks)**

**(4)(a)** What are the key features of Cost Audit? **(3 marks)**

**(b)** What are the benefits of cost information as per the expert committee of India? **(6 Marks)**

**(c)** As an cost auditor of a company, how would you deals with the following issues –

- i. Valuation of Stock of work-in-progress and finished goods;
- ii. Treatment of Joint Products and By-Products.
- iii. Treatment of Scrap and Waste.

**(3×3 = 9)**

### **SECTION II (50 Marks) (Operational Audit)**

**Answer Question No. 5 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.**

**5.(a) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s) :**

**[8×1=8]**

- (i)** An operational audit process is the series of steps an auditor takes to evaluate the of a given company or other organization.
- (ii)** During pre-audit, the auditor meets with \_\_\_\_\_, explains the audit process and gathers basic information about the company to determine concerns and risks.
- (iii)** Operational audit is a \_\_\_\_\_ involving logical, structured and organized series of procedures.
- (iv)** Operational audit is not different from \_\_\_\_\_ audit.
- (v)** FSN analysis is technique used in \_\_\_\_\_ control.
- (vi)** \_\_\_\_\_ audit is also termed as micro level management audit.
- (vii)** The Companies Amendment Act, 2000 had introduced a new Section 292A regarding constitution of \_\_\_\_\_ committees.
- (viii)** The quorum for Audit Committee meeting shall be two members or \_\_\_\_\_ members of Audit Committee which ever is greater.

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**(b) State whether the following statements are TRUE or FALSE with justification for your answer. No credit will be given for merely answering TRUE or FALSE — without giving any justification/reasoning: [6×1=6]**

- (i)** Audit of Human Resource Development is outside the scope of Management Audit.
- (ii)** Management Audit imposes barriers in executive decision making.
- (iii)** Management Audit Report is presented to the management.
- (iv)** Operational audit is a part of Internal Control.
- (v)** The main function of the operational audit is to safeguard the assets of the enterprise.
- (vi)** Operational Audit's focus is on effectiveness of management decisions and actions.

**(6)(a)** As a management consultant, you have an assignment to conduct a Management Audit of the production function of a medium-scale engineering unit. Prepare a check list of the points on which you should undertake the study. **(10 Marks)**

**(b)** Analytical procedure is a pre-requisite procedure for an audit. Comments **(4 Marks)**

**(c)** What are the areas need to be examined by the management auditor of the company to evaluate the adequacy of Budgetary Control System? **(4 Marks)**

**(7)(a)** Explain the objects of Management Audit? **(3 Marks)**

**(b)** Explain the need for capacity determination of an organisation in India. **(5 Marks)**

**(c)** What are the factors need to be considered while designing an internal control system? **(10 Marks)**

**8 (a).** As a management consultant, you have an assignment to conduct a Management Audit of the production function of a medium-scale engineering unit. Prepare a check list of the points on which you should undertake the study. **(10 Marks)**

**(b)** Prepare the checklist of Inventory Control Function. **(8 Marks)**