

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 as such shall continue in such capacity till the expiry of ----- from the closure of the ----- or till he submits the -----, for the financial year for which he has been appointed.
- (ii)** Para 2 of Part B of 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)** Every cost auditor shall forward his report to the ----- of the company within a period of ----- from the closure of the financial year to which the report relates and the Board of directors shall consider and examine such report particularly any reservation or qualification contained therein.

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

- (i)** Whether Value Addition and Distribution of Earnings [Part D, Para 3] is to be computed based on Cost record data?
- (ii)** Whether Financial Position and Ratio Analysis [Part D, Para 4] is to be computed based on Cost record data?
- (iii)** Under Part D, Para 6 of the Cost Audit Report, the Cost Auditor gives Reconciliation of only 2 years.
- (iv)** All petroleum products are covered under Companies (Cost Records and Audit) Rules, 2014?
- (v)** Export Benefits are to be considered as a part of other operating income.
- (vi)** Cost Accountant in employment can be a Cost Auditor?

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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)** What are the eligibility criteria for appointment as a cost auditor? **(9 Marks)**
- (4)(a)** Is a cost auditor of a company required to audit and certify monthly, quarterly, half-yearly and yearly cost statements? **(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 Marks)**

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 concept of Management Audit was developed by -----.
 - (viii)** ----- integrates all facets of the business, including planning, purchasing, manufacturing, sales and marketing etc., which are sometimes located at different geographic locations.

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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) How can an internal control system with regard to sales return and purchase return be designed? **(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)**