

# **J.S(P.G) COLLEGE SIKANDRABAD**

## **SUBJECT- COST ACCOUNTING**

### **B.COM - 2<sup>ND</sup> YEAR**

#### **TOPIC: COST AUDIT**

#### **Definition Of Cost Audit**

The term **Cost Audit** means the examination of books of account and vouchers to ascertain their accuracy. The exact calculation of the cost of a product is called Cost Audit.

#### **Meaning**

‘**Audit**’ may be described as a systematic examination of the books, vouchers and records of a [business](#) to enable the auditor to satisfy himself and to report whether the accounts thereof are properly drawn up so as to exhibit a true and fair view of the state of affairs of the business. Initially, the scope of the audit was limited to the verification of the transactions of financial nature but in recent times, it has been extended to other fields also Cost audit is one of them. Cost audit is concerned with the verification of the correctness of the cost records or cost accounts maintained in a business concern.

The **Institute of Cost & Works Accountants of India** defines 'cost audit' as "an audit of efficiency of minute details of [expenditure](#) While work is in progress and not a post-mortem examination. Financial audit is a 'fait accompli'. Cost Audit is mainly a preventive measure, a guide for management policy and decision, in addition to being a barometer of performance".

## **Objectives Of Cost Audit**

The following are the objectives of the Cost Audit:

### **A) Prospective Aspects**

- (i) This aspect will deal with proper ascertainment and control of costs.
- (ii) Detection of Errors, omission and commission and there check on its repetition.
- (iii) Verifying that cost accounts are correctly maintained in conformity with accepted Cost Accounting principles adopted in the industry.
- (iv) Ensuring that the Cost Account routine laid down is properly carried out.

### **(B) Constructive Aspect**

A great deal will depend upon the attitude of management or the appointing authority and the scope of Audit. Auditor will work in an advisory capacity for the well-being of the owners of the company. His functions may thus extend to judge:

- (i)** Whether or not the existing procedures are adequate and effective to the management for making decisions.
- (ii)** Whether or not the projected expenditure could give optimum result.
- (iii)** Whether the money invested in one type of investment could be more profitably invested in another.
- (iv)** Whether return from [capital](#) employed is adequate if not, whether it can be bettered.

## **Merits Of Cost Audit**

The chief merits of cost audit are as under:

- i** The Cost Audit checks the misuse of Raw Materials and Labour.
- (ii)** The Cost Audit is useful in checking inefficiencies.
- (iii)** The Cost Audit is very useful in highlighting irregularities and frauds.
- (iv)** It is useful for checking inefficiencies and uneconomic activities.
- (v)** The Cost Audit provides all information for immediate action.
- (vi)** This will facilitate Budgetary and standard cost technique.
- (vii)** It is very useful in the valuation of inventory and work-in-progress.
- (viii)** It is useful for cordial relation between employees and top management.

(ix) It recommends a reasonable price to the consumers.

(x) It highlights the good as well as the weak points of organisation. Thus corrective action is suggested.

## **Advantages of Cost Audit:**

1. Cost audit helps in detection of errors and frauds.
2. The management gets accurate and reliable data based on which they can make day-to-day decisions like price fixation.
3. It helps in cost control and cost reduction.
4. It facilitates the system of standard costing and budgetary control.
5. It helps the management in inter-unit / firm comparison.
6. It enables the management to identify loss making propositions.

## **To The Government**

1. Cost audit ensures efficient functioning of the industry. This in turn, nurtures a healthy competition among the different companies and paves a path for fast progress.

2. It helps in identification of sick units and enables the Government to make relevant decisions.
3. It helps in fixing prices in the case of essential commodities and checking undue profiteering.
4. It enables to take decisions as to granting of subsidies, incentives and protection to various industries.
5. It helps to take decisions as to levies, duties and taxes.

### **To the Society**

1. Cost audit enables the Government to fix prices of essential commodities. This safeguards the interests of the society.
2. Cost audit enables the Government to keep a check on undue profiteering by the manufacturers and avoids artificial price rise due to monopolistic tendencies.

### **To the Shareholders**

1. Cost audit reveals whether any of the products of the company are making losses. Thus though the company making an overall profit, a loss making line may eat up the company's profits. This is brought to the notice of the shareholders and the management is forced to take

remedial measures, thereby making optimum utilisation of resources.

2. Cost audit ensures that the shareholders get a fair return on their investments.

### **Disadvantages of Cost Audit:**

1. Holding a Cost Audit can be expensive. This is because a company will often bring in an independent auditor who are normally charging higher price.

2. A Cost Audit can be a long process which will likely involve more time. This extra time and effort can impact an employee's day to day routine work.

3. If a Cost Audit is carried out in order to find fraudulent activity it can take a long time by which time people stealing could have covered their tracks.

4. Cost Audits involve a large amount of estimation and so there is the possibility that figures will be incorrect and if record keeping from the company is not good to start with then inaccuracies will be arises.

### **Difference Between Cost Audit And Financial Audit**

The main differences between cost and financial audit are as below:

Cost Audit	Financial Audit
<b>Where to use:</b> Where Cost Accounting techniques are used such as Manufacturing organisations there cost Audit is needed.	Where Financial Accounts are prepared. It is applied there.
<b>Object:</b> The object of cost audit is to see how to reduce cost of output.	The object of financial audit is to see that books of account are accurate.
<b>Variation of What:</b> In cost Audit, total cost and per unit cost of output is shown or varified.	The Financial Audit lays stress that Financial Position is shown true and fair.

<p><b>Related to:</b> It is only related to per unit cost of output.</p>	<p>Financial Audit is related to total income and expenditure.</p>
<p><b>Laws:</b> The Cost Audit is related to test working efficiency of the organisation.</p>	<p>Financial Audit is to see whether laws and formalities are carried on or not.</p>
<p><b>Who does it:</b> This Audit can be done by external parties such as Government, customer Trade Associations, Tribunals etc.</p>	<p>The Financial Audit is done by owners of the organisation.</p>
<p><b>Valuation of closing stock:</b> Here Cost Audit sees that the stock is not more than the required quantum.</p>	<p>It is the duty of Financial Auditor to see whether the proper valuation of</p>



	the stock is done or not.
<b>Report:</b> Here the report is submitted to the Government/Owner/Company Law Board.	In this, Audit report is submitted to shareholders.
<b>Scope:</b> The Cost Audit is confined to Factory/Works.	The Financial Audit is confined to the office.
<b>Interest:</b> This Audit protects the interest of Government and Producers.	It protects the interest of shareholders.
<b>Period:</b> Its report not confined to any specific period but related to objectives.	It is generally after one year or related to some special time.
<b>Appointment:</b> The Cost Audit is appointed with the prior permission of the	The Financial Auditor is appointed in

Central Government or by the Board of Directors.	General meeting of the company.
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## Cost Audit as per Companies Act, 2013

This article contains the description of some provisions related to cost audit as per companies Act, 2013. When cost audit is required:-Central government may direct to conduct cost audit in respect of companies engaged in the production of such goods or providing such services and have a net worth or turnover as may be prescribed.

The companies act, 2013 has come into existence on 29.08.2013 that replaces a nearly six decade-old legislation and overhauls the way corporate function and are regulated in the country.

This article contains the description of some provisions related to cost audit as per companies Act, 2013.

**When cost audit is required:-**Central government may direct to conduct cost audit in respect of companies engaged in the production of such goods or providing such services and have a net worth or turnover as may be prescribed.

Note: If company is regulated by any special act then central government can direct to conduct cost audit only after consulting with regulatory body constituted under special act.

**Appointment of cost auditor:-**Cost auditor shall be appointed by board whereas remuneration of cost auditor shall be determined by members.

**Who can be appointed as cost auditor:-**Cost audit shall be done by cost accountant in practice.

**Qualifications, disqualifications, rights and duties of cost auditor:-**Cost auditor shall have same qualifications, disqualifications, rights and duties as that of a company auditor. Further, it is the duty of cost auditor to comply with cost auditing standards and to submit his report to BOD.

**Duty of company:-**After receiving the cost audit report, company shall furnish full information and explanations on every reservations or qualifications to CG within 30 days of receipt of cost audit report. If CG requires any further information then it is the duty of company to furnish such information within given time.

**Punishment for contravention in case of company:-** If company contravenes any of the above mentioned provisions then company shall be punishable with fine of Rs. 25,000 to Rs. 5, 00,000 and officers of company shall be liable for fine of Rs. 10,000 to Rs. 1, 00,000 or imprisonment for a term which may extend to 1 year.

**Punishment for contravention in case of cost auditor-**If Cost auditor contravenes any of the above mentioned provisions unknowingly then he shall be punishable with fine of Rs. 25,000 to Rs. 5, 00,000. Whereas, he contravenes any of the above mentioned provisions knowingly then he shall be punishable

with fine of Rs. 1,00,000 to Rs. 25,00,000 along with imprisonment for a term which may extend to 1 year. Further, he shall be liable to refund the remuneration and pay damages to company.