Module 1 · Basics of Cost Audit P17 · topics 1.1–1.5

SM pp. 3–12, only seven pages of text — and **56 marks in 7 papers**: **Q2(a), 7 marks, in every paper** (objectives three times, scope twice, benefits, advantages of CAS) plus an MCQ (year 1965, cement, objectives). These pages are worth learning word for word.

Paper	Q2(a) · MCQ	Paper	Q2(a) · MCQ
Jun'23	**social objectives** · MCQ primary objective = accuracy of cost data	Jun'25	**general objectives** (= PTP Q2(a))
Dec'23	**benefits of cost audit** · MCQ first industry: cement	Dec'25	**main purposes** · MCQ year: 1965
Jun'24	**scope of cost audit**	Jun'26	**define cost audit, scope, social objectives**
Dec'24	**advantages of CAS** · MCQ objectives	Dec'26?	**benefits of cost information (Expert Committee)** — ICMAI MQP Q2(a), never asked

1.1 Nature and scope of cost audit · Jun'24, Jun'26 Q2(a)

THREE DEFINITIONS (SM WORDS)

- **CIMA, London**: "the **verification of the correctness of cost accounts** and of the **adherence to the cost accounting plan**" — i.e. verification of the cost of production of any product, service or activity on the accounts kept per accepted cost accounting principles. [SM 3]
- **ICMAI**: "a system of audit for the **review, examination and appraisal** of the cost accounting records and attendant information, required to be maintained by specified industries, as mandated by the applicable Companies Act and Rules framed thereunder." [SM 3]
- Cost audit is an **independent examination** of cost statements, cost records and related information, **with a view to express an opinion** thereon. [SM 3]
- ICWAI: "An audit of **efficiency of minute details of expenditure** ... mainly a **preventive measure**, a guide for management policy and decision ... and a **barometer of performance**." [SM 3]

CAS vs cost auditing standards: cost accounting practices and principles are in the **Cost Accounting Standards**; cost auditing procedures in the **Standards on Cost Auditing**, the best guide for the auditor (better planning, documentation, implementation; may rely on another auditor's or expert's work). Preparing cost records and statements is **management's responsibility**. [SM 3]

SCOPE (THE JUN'24 / JUN'26 ANSWER)

The **primary objective** is the **accuracy of cost data**, accumulation and exact computation of the cost of a product (Jun'23 MCQ), but its vast scope works as a **mirror of the entity's performance**. Beyond propriety it covers overall **efficiency** and its improvement. It can help: [SM 3–4]

a. **control over element-wise cost**;
b. determining **sales price and margin**;
c. management in **decision-making**;
d. necessity and results of each **activity**;
e. setting **standards and budgetary controls**;
f. **minimizing wastages**;
g. accuracy of **inventory valuation**;
h. **overall efficiency improvement**.

[SM 4]

SM WORDS Cost Audit is not only a **compliance tool** (where mandatory); its outcome goes **"beyond compliance"**. [SM 4]

1.2 Genesis of cost audit · Dec'23 + Dec'25 MCQs, PTP and postal MCQs

- Pre-independence **cost-plus** Government contracts → cost investigation; World War II made cost a distinct concept; the Institute was set up in **1944** to promote, regulate and develop the profession. [SM 5]
- Mid-fifties **Dalmia-Jain** frauds → **Vivian Bose Commission**, then the Dutta Commission and the Daphtary-Sastri Committee: they recommended effective cost accounting and cost audit to supplement financial audit (SM fill-in: **Vivian Bose**). Scarcity led to price controls based on cost. [SM 5]

Year	The Institute
1944	ICWAI set up under the Companies Act 1913, as a limited company
1959	statutory body under the Cost and Works Accountants Act, 1959
2012	renamed **The Institute of Cost Accountants of India**

[SM 5]

Year	Cost audit
1965	cost audit **first introduced**: **s.233B** (audit) and **s.209(1)(d)** (records) of the Companies Act 1956; first industry: **cement** (SM MCQ 1–2)
1965–2008	**44** industries covered, company by company
2008 / 2009	**Expert Group** set up / reports to the CG
2011	**mandatory** cost audit for manufacturing, mining, processing by turnover and net worth limits; compliance certificate
2014	Companies (Cost Records and Audit) Rules, 2014 under the 2013 Act

[SM 5–6, SM 12]

s.148 in one line each: (1) CG may order cost particulars in the books (consult the regulator of a special-Act company); (2) CG may order **cost audit** by net worth or turnover; (3) by a **cost accountant in practice** appointed by the **Board**, remuneration fixed by the **members**; not the s.139 auditor; must follow **cost auditing standards** (ICMAI, with CG approval); (4) in addition to the s.143 audit; (5) auditor rules apply; the company gives all assistance; report to the **Board**; (6) company sends it to the CG within **thirty days** of receipt with explanations; (7) CG may call for more; (8) default: company and officers → **s.147(1)**; cost auditor → **s.147(2)–(5)** (SM MCQ 5). [SM 6]

1.3 Objectives of cost audit · Jun'23, Jun'25, Dec'25 Q2(a), PTP Q2(a), Dec'24 MCQ

GENERAL OBJECTIVES (12, SM ORDER)

1. verify that cost accounts are **properly maintained and compiled** under the system followed;
2. ensure the **prescribed procedures** of the cost records rules are followed;
3. **detection of errors and fraud**;
4. verify the cost of each **cost unit and cost centre**;
5. determination of **inventory valuation**;
6. help **fix prices** of goods and services;
7. **periodical reconciliation** of cost and financial accounts;
8. **optimum utilization** of human, physical and financial resources;
9. detect and correct **abnormal loss** of material and time;
10. advise management from **inter-unit / inter-firm comparison**;
11. promote **corporate governance** through operational disclosures to directors;
12. help in **anti-dumping**, cost of production valuation, **anti-profiteering** (GST), price controls (pharma).

[SM 7]

SOCIAL OBJECTIVES (5) · JUN'23, JUN'26

1. verify that **pricing** is justified for the product and quality;
2. **remove disparities** in pricing of products or services;
3. see that no **cost-based economic imbalance** occurs;
4. help **global cost competitiveness**;
5. ensure **efficient utilization of resources**.

[SM 7]

MEMORY HOOK · "MAIN PURPOSES" (DEC'25)

Write the general objectives under three heads: **Verify** (accounts, procedures, unit costs, inventory, reconciliation) · **Protect** (errors and fraud, abnormal losses, resources) · **Advise** (prices, comparisons, governance, anti-dumping). Add the social objectives as a closing paragraph.

1.4 Utility and advantages · Dec'23 Q2(a); Expert Committee = MQP Q2(a)

- Early years: a tool of **price control** for consumer and infrastructure industries — authentic data for the

BENEFITS OF COST INFORMATION · THE EXPERT COMMITTEE (MQP Q2(a))

Government's **administered price mechanism**. Liberalisation and globalisation raised the need for authentic data. [SM 8]

- **IFAC**: cost audits check that cost records give a **true and fair view** of the cost of production, processing, manufacturing and mining; they benefit **management, consumers and shareholders** by (a) finding **weaknesses** in cost systems and (b) driving down costs by detecting **wastage and inefficiencies**; they help governments frame **tariff and taxation** policies. [SM 8]

a. lets the organisation **structure the cost, understand it** and communicate with stakeholders;
b. assesses **performance** in shareholder and stakeholder value; shows how profit and value are created and how efficiently inputs become outputs; feeds economy-level data (resource efficiency, waste, allocation);
c. product, process and resource information across the **value chain**; appraises performance against **strategy**;
d. supports regular and non-routine **decisions**: meet customer expectations and profit targets; continuous improvement; **product mix and investment**;
e. a **common data source** keeps reports for different audiences reconcilable;
f. **integrated databases** give costing information efficiently and cut data manipulation.

[SM 8]

1.5 Cost Accounting Standards · Dec'24 Q2(a)

SM WORDS Cost Accounting Standards are a set of standards designed to achieve **uniformity and consistency** in cost accounting principles and practices; ICMAI constituted the **Cost Accounting Standards Board (CASB)** to formulate them (SM T/F 4: not the auditing standards board). They: (1) give a **structured approach** to measuring costs; (2) **integrate, harmonize and standardize** principles and practices; (3) guide users to **uniformity and consistency** in classification, measurement, assignment and allocation; (4) give the **basis of cost** where required by **legal or regulatory bodies**; (5) let practising members use CAS in **attesting General Purpose Cost Statements**; (6) give a **clear and uniform understanding** to users, Government bodies, regulators, researchers and academics. *For Dec'24's "advantages to industry, users and Government", sort these six under those three heads.* [SM 9]

EX The SM's own exercise (SM 10–12)

1 cost audit first introduced ★	**1965** (= Dec'25 MCQ)	T/F 3 report to the CG within 30 days of	**receipt**, not signing — F
2 first industry ★	**cement** (= Dec'23 MCQ)	T/F 4 CAS formulated by	**CASB**, not CAASB — F
3 mandatory cost audit ordered	**2011** (postal MCQ)	T/F 5 the cost auditor complies with	cost **auditing** standards — F
4 report submitted to	**Board of Directors**	fill-ins	Institute set up **1944** · **Vivian Bose** · company default s.**147(1)** · renamed **2012**
5 cost auditor in default punished under	**s.147(2)–(5)**	T/F 1–2	WWII contracts on cost-plus (F as worded); 1944 objective = promote, regulate, develop (F)

[SM 10–12]