Module 6 · Cost Audit Programme P17 · 6.1–6.3

SM pp. 329–367 (no SM exercise for this module). **36 marks in 7 papers. "Factors in planning a cost audit assignment" was Q3(b) three times** (Dec'23, Dec'25, Jun'26, almost word for word); the other two long questions asked for a **checklist** for one cost element.

Paper	Question	Paper	Question
Jun'23	Q4(a) **audit checklist: repairs and maintenance cost** (8)	Dec'25	Q3(b) **factors to consider in planning a cost audit assignment** (= Dec'23)
Dec'23	Q3(b) **important factors in planning the cost audit assignment**	Jun'26	Q3(b) **appointed as cost auditor: identify the planning factors** (third time)
Dec'24	Q3(b) **checklist to audit production, product-wise**	Dec'26?	Q3(b): planning factors 25% · a checklist 15% (the rest of Q3(b): stages of audit 30%, XBRL 20%)

DEC'26 PREDICTION · Q3(b), 7 MARKS

- A fourth "planning factors" is possible (25%), but Q3(b) also rotates to **stages of audit** (Module 7, in both the MQP and the PTP) and **XBRL** (Module 8).
- Checklists never asked yet: **raw material**, **electricity / DG set**, **steam**, **employee cost**, **stores and spares**, **packing**, **sales value**, **administrative / selling overheads**. They share one pattern (box on the right): learn the pattern, then the 2–3 points unique to each.

THE CHECKLIST PATTERN (FITS ANY COST ELEMENT)

1. **5-year trend**, cost-centre wise (find the **A category** centres = 70% to 75% of the cost).
2. **Product-wise** trend, in ₹ lakhs and **₹ per MT**; higher ₹/MT often = **low capacity utilisation**: tell management.
3. **Quantity balance**: opening + receipts − consumption = closing; input / output ratios.
4. **Meters** installed and **calibrated**; monthly reports as the basis.
5. Pick **major items**: booked to the **right cost centre**; employee, stores, depreciation, insurance only of that centre.
6. Tie the **expense control chart** to the **Trial Balance**; ask for the MIS tables.

6.1–6.2 Planning the cost audit · Dec'23, Dec'25, Jun'26 Q3(b)

- SM WORDS A cost accountant in practice plans the work with **professional care**, recognising that circumstances may cause the cost statements to be **materially misstated**; the audit is programmed to give **reasonable assurance** that the cost information is free of material misstatements. [SM 329]

ADD-ON FOR "YOU HAVE BEEN APPOINTED…" (JUN'26): THE PLANNING STEP (MODULE 7)

Timing and duration of the audit and unit visits; level and number of personnel, supervision and review; the audit partner's days; an **overall audit plan and strategy**; **materiality and sampling levels**; audit procedures (management representation and assertion, tests of controls and details, substantive and analytical procedures); **risk assessment**; discussions with key personnel, the **previous cost auditor**, the statutory and internal auditors; inputs: preliminary activities, previous audits, knowledge of business, scope, **statutory deadlines and format**. [SM 377]

OVERALL CHECKLIST OF THE PROGRAMME (SM 364–366)

1. **Familiarisation with the company**: nature of business (Annual Reports of at least 5 years; objects in the MoA); objectives and strategies; ownership; corporate structure, subsidiaries.
2. **Company records**: MoA, AoA, technical collaboration, inter-company contracts, secretarial registers (material points only).
3. **Organisation**: heads of finance and costing, directors and KMP, delegation of authority, MIS and cost control.
4. **Organisation profile**: an organisation chart.
5. **Policies**: capitalisation and finance, products and by-products, inter-company transactions.
6. **Sales policy**: pricing (home, export), distribution, credit and collection.

MODEL ANSWER · "FACTORS IN PLANNING THE COST AUDIT ASSIGNMENT" (SM 330–331)

Three important factors: **(a) audit personnel**, **(b) documentation of procedures and evidence**, **(c) quality control** over the assignment. [SM 330]

(a) Audit personnel: their **experience and training** for the **industry**; a two-pronged approach: study the **industry** and the **Annual Reports of at least 5 years**. The team needs direction and supervision and must: (i) **physically inspect** the activities and areas; (ii) know the **key personnel** for activities and cost records; (iii) inspect the **cost accounting records**; (iv) study **budgets, plans and strategies**; (v) study the **cost accounting system and its basis per the relevant CAS**; evidence filed in the cost audit file. [SM 330]

(b) Documentation: document everything that supports the opinion; **working papers** = papers prepared by, for, or obtained by the cost auditor; they may hold non-accounting data (production schedules, statistics) for performance analysis. Daily worksheets record every query, how it was discussed and whether satisfied; **standardised papers** (checklists, confirmation forms, standard letters) improve efficiency; the entity's schedules are used only once satisfied they were prepared with care. Files indexed for **quick retrieval**; **confidentiality, safe custody and retention** per legal and professional needs. [SM 330–331]

(c) Quality control (direction, review, monitoring): (a) monitor progress of cost records; (b) check assistants have the **skill and competence** for their tasks; (c) be aware of cost accounting and auditing questions raised, assess them and **modify the plan**; (d) resolve **differences of professional judgement**. [SM 331]

7. **Production planning and control**: process flowcharts, layout, licensed and installed capacities.
8. **Accounting systems**: financial, cost, integrated, stores, ERP; procedures manual.
9. **MIS**: budgets, standard costing.
10. **Internal audit and internal control**: manual and reports.
11. **Cost records**: cost records and statements, the Cost Accounts Manual, **previous cost auditor's reports**.

[SM 364–366]

Information to obtain: one-time (organisation chart, process flow chart, cost centres, machine capacities, products, collaboration and royalty, bill of materials, utilities, pollution control, exports, loans, budgets, costing policy) and for the audit period (accounts and Trial Balance, inventories, cost-centre expenses, material and packing consumption by product, WIP by stage, scrap, utilities generated and used, machine downtime, sales by domestic / export, overhead bases, **GST returns**). [SM 366–367]

6.3 Checklists by cost element · Dec'24 production, Jun'23 repairs and maintenance

MODEL ANSWER · DEC'24 Q3(b) PRODUCTION, PRODUCT-WISE (SM 332–333)

1. **Inventory balancing** for each finished product: **opening stock + production = external sales + internal transfers + closing stock**.
2. Last year's **closing stock = this year's opening stock**.
3. **Capacity utilisation of the previous 5 years**, product-wise.
4. For **abnormal under-utilisation**, seek reasons and management's plan; focus where the product is profitable or has a positive contribution.
5. Where **capacity was added** but production is equal to or less than last year, seek reasons.
6. Ask for the MIS reports: Table 1 (inventory balancing) and Table 2 (capacity utilisation, 5 years).

[SM 332–333]

- **Raw material**: quantity balance (opening + purchases − consumption = closing); **input / output ratios for 3 to 5 years**, the least = **benchmark**; normal evaporation loss charged as consumption; sale of residue reduces the cost of the product it comes from; R&D savings checked; **FIFO or weighted average, applied consistently**; cost-centre totals agree with the Trial Balance; in-house material at its cost centre's cost; imported / local in the same proportion in all products; port tank rent is material cost; **demurrage, detention and penalties are not landed cost**; goods in transit at year end; stock-verification adjustments; receipts valued with freight; over-usage statements; rate trend for 4 years. [SM 333–335]
- **Key raw material inventory**: current stock vs consumption; closing stock as **months' cover** (cost locked up). [SM 336]
- **Electricity**: A category centres; more consumption without more output needs explanation; 5-year trend of ₹/KWH and ₹/MT; **meters installed and calibrated**; monthly electrical report as the basis; several sources → buy the optimum from the **cheaper source**. **DG set**: monthly report (hours run, diesel used, units generated); **units per litre of diesel for 5 years**; allocation in line with output; only DG employees, stores, depreciation, insurance. [SM 336–340]

MODEL ANSWER · JUN'23 Q4(a) REPAIRS AND MAINTENANCE COST (SM 347–349)

1. Obtain **cost-centre-wise R&M for 5 years** (Table 28) from the CMA or finance department or ERP; investigate any substantial increase with the **head of that cost centre** to prevent recurrence.
2. Find the **A category cost centres** (**70% to 75%** of R&M) and focus control and reduction there: a small step there gives a far greater benefit.
3. Obtain **product-wise R&M for 5 years** (Table 29) and discuss increases.
4. Pick a few **major R&M items** and check they are booked to the **correct cost centres**.
5. **R&M per MT** by product (Table 30): a higher figure may be due to **lower capacity utilisation**: highlight it to management.
6. Go through the **expense control chart** of plant-wise expenses tied to the **Trial Balance**.

[SM 347–349]
Add from CAS-12 (Module 4 notes): separate routine maintenance from capitalised repairs; R&M of service cost centres apportioned on benefit; abnormal R&M excluded.

- **Stores and spares** (same pattern): cost-centre and product-wise for 5 years; **A category = 70% to 75 %**; major items to the right centre; ₹/MT; expense control chart tied to the Trial Balance. [SM 345]
- **DM water**: own cost centre; monthly report (filtered water, chemicals, KWH, water generated and allocated); meters; chemicals from the priced stores ledger. **Steam**: boiler report (running hours, steam MT, DM water, KWH, fuel, auxiliary use, **line losses**); ratios for 5 years (cost per MT, steam per unit of fuel, auxiliary and line losses to total, steam and cost per MT of product); insulate pipelines. [SM 341–344]
- **Employee cost**: cost, headcount and cost per employee for 5 years, cost-centre and product-wise; ₹/MT; payroll cost centres updated for **transfers**; justify headcount increases. **Insurance** and **depreciation**: same pattern; a jump may mean **allocation or capitalisation to the wrong plant** (fixed asset register). [SM 349–355]
- **Administrative overheads**: trend for 4 years and ₹/MT; consistent allocation basis; **donations and penalties not charged to products** but shown in the reconciliation; rate contracts for stationery; travel; litigation cost not more than the benefit. **Selling and distribution**: needed for product profitability, control and **price fixation**; trend, ₹/MT, travel reasons with marketing. [SM 357–360]
- **Packing material**: negotiate high-value items; packing cost recovered in invoices of packed sales; quantity balance; FIFO / weighted average consistently; no demurrage; rates and consumption per MT for 5 years. **Sales value**: focus on A and B products; realisation raised to absorb variable cost; more orders and capacity for **high-contribution** products; no stock locking up working capital. [SM 360–362]