Module 8 · Preparation and Filing of Cost Audit Report P17 · 8.1–8.5

SM pp. 381–396 (no SM exercise for this module). **41 marks in 7 papers. Q3(b), 7 marks, was XBRL filing in Jun'24 and Jun'25**; CRA-3 contents came long in Jun'23 and Dec'23; **2–3 MCQs in every paper since Jun'25** (forms, 30 days, costing taxonomy, where XBRL does not apply, the Board).

Paper	Question	Paper	Question
Jun'23	Q5(a) **cost auditor's duty to highlight utilisation of resources** (4) · Q5(b) **when a qualified report is issued** (4)	Jun'25	Q3(b) **steps for filing the cost audit report with the CG** · MCQs: CRA-4 within **30 days**; **costing taxonomy**
Dec'23	Q6(a) **CRA-3 contains more management-audit basics than production data**: comment · MCQ report in **CRA-3**	Dec'25	MCQ: XBRL does **not** apply to internal management reports and confidential communications
Jun'24	Q3(b) **process to file reports in XBRL format**	Jun'26	MCQs: report submitted to the **Board of Directors** (= MQP); CRA-3 = **form of cost audit report**
Dec'24	—	Dec'26?	MQP MCQs: report filed in **CRA-4**; **validation is the pre-requisite** · PTP MCQs: XBRL based on **XML**; Part A = general information

DEC'26 PREDICTION

- **MCQs are near certain** (Q1(a) items (i) and (vi)–(vii): 20–30% each slot): CRA-1 / 2 / 3 / 4 · 30 days · 180 days · Board · costing taxonomy · validation tool · XML · no extensions.
- Q3(b) 7 marks (about 20% for XBRL): the **8 filing steps** again, or **validation + pre-scrutiny**, or **benefits / uses of XBRL**. Also possible as a short note: **qualified vs adverse report**; **critical elements of the report**.

THE FOUR FORMS (MCQ FAVOURITE)

Form	What	Who / when
CRA-1	cost records to be maintained (30 heads)	company
CRA-2	intimation of the cost auditor's appointment	company, to the CG
CRA-3	**form of the cost audit report**	cost auditor, to the **Board**
CRA-4	**filing** of the report in XBRL	company, to the CG, **within 30 days** of receipt

Appointment, CRA-2 and the 180-day report deadline: Module 2 notes.

8.1–8.2 The report in CRA-3 · its critical elements · Jun'23 Q5(a), Dec'23 Q6(a)

- SM WORDS A cost auditor submits his report in **Form CRA-3**, prepared from the cost records maintained per **CRA-1**; format prescribed by the Companies (Cost Records and Audit) Rules, 2014 (amended as on 15th October, 2019). The **company** has the primary responsibility for the **Annexures**, prepared **in consultation with the cost auditor**. [SM 381]
- Any **material deficiency or qualification** is shown **against the relevant paragraph (i) to (vi)** of the report itself, with details. Findings rest on **verified data**, and are included only after the **company has had an opportunity to comment**; deficiencies go to **management first**; satisfied → drop; not satisfied → qualify to that extent. [SM 381]
- ICMAI: **cost audit is an audit of efficiency of minute details of expenditure while the work is in progress, not a post-mortem examination like financial audit** (a "fait accompli"). It verifies cost records, detects errors and frauds, supports pricing, make-or-buy, cost control and reduction. [SM 382]
- **CRA-1** prescribes **30 (thirty)** broad heads (material, employee cost, utilities, direct expenses, repairs, depreciation, overheads, … reconciliation, related party,

OBJECTIVES OF COST AUDIT (WHY THE REPORT ASKS SO MUCH)

1. verify that cost records are **accurate**;
2. certify that **costing principles** were followed;
3. check that predetermined **procedures** were followed;
4. detect **errors and frauds**;
5. check each item of expenditure was **properly incurred**;
6. see how far cost records help **management decisions**;
7. disclose **inefficiencies** in material, labour, machines;
8. help the external auditor by reducing detailed checking;
9. a **moral check** on cost staff.

[SM 383–384]

CRITICAL ELEMENTS THE REPORT MUST STATE (THE JUN'23 "UTILISATION OF RESOURCES" ANSWER)

a. whether **machines and labour remained idle** for shortage of raw materials;
b. whether large **raw-material stocks stayed unutilised**, locking up working capital;
c. whether the **cost records were adequate** for audit;
d. whether management's **broad policy** was followed;

exports, production, sales, cost statements, statistical records, physical verification). [SM 382–383]

MODEL ANSWER · DEC'23 Q6(a) "CRA-3 CONTAINS MORE MANAGEMENT-AUDIT BASICS": AGREE

1. CRA-3 gives **unit-wise, product / service-wise cost statements and schedules**, and deviations must be reported. [SM 383]
2. **Part D** is a measure of **performance orientation**: (a) product and service **profitability** statement, (b) **profit reconciliation**, (c) **value addition and distribution of earnings**, (d) **financial position and ratio analysis**. [SM 383]
3. The auditor must comment on **idle capacity, locked-up working capital, rising cost and its causes, wastage, areas of cost reduction, operating efficiency of each line**: management questions, not production data. [SM 384]
4. Its objectives include disclosing **inefficiencies in the use of material, labour and machines** and helping management decide. [SM 384]

e. focus on **cost of production, comparative profitability and operating efficiency** of each line, not routine statistics;
f. any **rise in cost** over the previous year, its causes and where it originates;
g. any **wastage** in manufacture and how to avoid it;
h. areas where **cost can be reduced**;
i. whether the cost statement shows a **true and fair view** of the cost of production.

[SM 384]

The company uploads the report in **XBRL** in **CRA-4** within **30 days** of receiving it, with explanations on every reservation or qualification. [SM 384]

8.3–8.4 Qualified and adverse reports · Jun'23 Q5(b)

- SM WORDS A **qualified** report is given when the cost statements are **materially misstated** due to misstatement in **one particular cost element, class of transaction or disclosure that does not have pervasive effect**, and when the auditor is **unable to obtain audit evidence** regarding a particular cost element, its allocation and apportionment, class of transaction or disclosure that does not have pervasive effect. Also issued where the records do not comply with **generally accepted cost accounting principles** or with **CRA-1**. [SM 385]

- **Adverse**: the cost statements are **materially misstated and the misstatements have pervasive effect** on cost of production, cost of sales and margins; taken as a whole they do not conform with generally accepted cost accounting principles; the opposite of a clean opinion: the information is **materially incorrect, unreliable and inaccurate**. [SM 386]
- **Memory:** material + *not* pervasive → **qualified** · material + **pervasive** → **adverse** · cannot get evidence on one non-pervasive element → qualified. Before qualifying, the point goes to management first (SM 381).

8.5 Filing in XBRL · Rule 6(6) · Jun'24 and Jun'25 Q3(b)

- SM WORDS **Rule 6(6)** (as amended by G.S.R. 695(E), 14th July, 2016): every company **within a period of thirty days from the date of receipt** of a copy of the cost audit report furnishes the **Central Government** with the report and full information and explanation on every reservation or qualification, in **Form CRA-4** in XBRL, per the Companies (Filing of Documents and Forms in XBRL) Rules, 2015, with the fees of the Registration Offices and Fees Rules, 2014. [SM 387]
- **XBRL** = a globally accepted **open standard** for digital business reporting, run by the non-profit **XBRL International**; used in more than **50** nations. Tags on data points let publishers share data with assurance, let users **validate** it against business rules at source, present it in any language, currency or format, and rely on standard definitions. [SM 387]
- Tags support preparation, validation, publication, exchange, consumption, analysis. **Uses**: internal and external reporting with financial and cost data; reporting to regulators (tax, central banks, governments); loan reports and credit risk; exchange between government departments, institutions and banks. *Dec'25 MCQ: not "internal management reports and confidential internal communications".* [SM 388]

MODEL ANSWER · JUN'24 Q3(b) "PROCESS TO FILE IN XBRL" (SM 389, SM 395)

1. **Map** the company's cost elements to the costing taxonomy.
2. **Populate** the data in the software / filing tool.
3. **Create the instance document**.
4. **Validate** it with the MCA validation tool.
5. **Pre-scrutinise** it.
6. **Convert to a human-readable PDF** and check the data.
7. **Attach** it to the e-form and **file on the MCA portal**.

[SM 389, SM 395]

- **Why cost data in XBRL**: governments and regulators need sector cost data for **policy making** (confidentiality kept); companies can **integrate financial and cost data** and control better. **Costing taxonomy** = a **dictionary of all cost elements** in the report, with their properties and interrelationships (= Jun'25 MCQ). [SM 389]
- **Conversion**: XBRL-enabled vendor software; mapping tools; third-party packages integrated with accounts; web applications that convert Excel. The software is **bought from vendors**; MCA validates and accepts filing but recommends none. [SM 389, SM 395]
- **FAQ facts**: XBRL is based on **XML** (= PTP MCQ); over **600** organisations in XBRL International; taxonomy files are XML and XSD; ICMAI runs XBRL training; **no extensions** to the costing taxonomy; old Form-I and Form-A replaced by **I-XBRL** and **A-XBRL**; separate instance documents for periods before and after 01.04.2014; a PDF view is advisable, not required. [SM 390, SM 393–396]

MODEL ANSWER · JUN'25 Q3(b) "STEPS TO FILE THE COST AUDIT REPORT WITH THE CG"

Open with Rule 6(6): within **thirty days** of receipt, in **CRA-4**, XBRL. Then the eight steps: [SM 387]

1. **Create the XBRL instance document**: tag the report by **mapping** each costing concept to a taxonomy element; the instance document is an **XML file**; **no extensions** to the core taxonomy.
2. **Download the MCA XBRL validation tool** (costing taxonomy) from www.mca.gov.in/XBRL; validation is a **pre-requisite** (= MQP MCQ); select the taxonomy; proxy settings on a LAN.
3. **Load** the instance document (General Information tag shows the company).
4. **Validate**: latest taxonomy version; all **mandatory elements**; MCA **business rules**; XBRL technical specifications; correct the errors listed and validate again.
5. **Pre-scrutiny** with the same tool online: **server-side validations** against the MCA21 database.
6. **Convert to PDF** ("Export to PDF") and verify; a zero-kilobyte PDF means fix the text per the html guidelines.
7. **Attach** the validated, pre-scrutinised document to **Form CRA-4**.
8. **Submit**: pre-scrutinise the form, sign with the **digital signature** of the person authorised by **board resolution**, upload as a normal e-form.

[SM 390–391]

Common errors: net connectivity; PDF not generated or zero kilobytes; wrong date format (10-05-2021 must be 10/05/2021); Yes/No in Boolean fields; 0-100 in percentage fields; currency code "Rs"; mandatory fields or table lines missing; dimensional errors. Element names in single quotes, values in square brackets, explicit members in curly brackets, axes in parentheses; **"cvc" errors** = schema / XML badly formed → contact the software vendor (Xerces validator). [SM 391–392]