AREAS OF COST AUDIT

Cost Audit is concerned mainly with propriety and Efficiency audit. It, therefore covers all the areas of production, sales and other management functions. Some of the core areas which should be examined by the cost auditor are as follows:

- Raw Material
- Labour
- Overheads
- Depreciation
- Capital Expenditure
- Capacity Utilization

The cost auditor should examine the following in those core areas:

1] Raw Material:

- Procedure of purchasing raw materials and the receipts and issues.
- Verification of receipts and documents relating to purchases, receipt, inspection and issue to production departments.
- Adequacy of the procedure relating to control of loss or pilferage of materials lying in stores or departments.
- Reasons for losses, scraps, waste, spoilage and defections arising out of manufacture.
- Accounting for scrap, waste, spoilage. Defectives etc. To ensure proper cost allocation.
- The method of pricing issues.
- Adequacy of the procedure for posting stores ledger and bin card on a day to day basis.
- Examination of material cost variances where standard costing is employed
- Correctness of the computation of the variances and reporting of variances for necessary managerial action.
- Computation of closing stocks.
- Physical verification of closing stock and its records.
- Method of valuation of closing stock.
- Procedure followed in accounting and control of components manufactured internally.
2] LABOUR:

Proper utilization of labour will lead to increase in efficiency and productivity. This is of vital importance in the present economic condition. The auditor’s duty is to assess performance efficiency of labour. Actual performance of the labour should be measured and compared with standard performance. While measuring the actual performance he auditor should verify the following:

- Verify the booking of workers attendance and ensure that Time Cards are maintained.
- Examine the Job Cards.
- Examine he Idle Time Cards
- Check the reconciliation of attendance time with effective time and idle time.
- Record of Overtime and its payment.
- For preventing frauds in payment of wages, it is the duty of cost auditor to see that duties of wages department are so divided as to reduce the possibility of collusion to a minimum.
- The auditor should ensure that the labour has been classified into direct and indirect.

OVERHEADS:

The cost auditor should examine the following:

- Classification of overheads into manufacturing overheads, administration overheads, selling and distribution overheads, research and development overheads etc.
- Legitimacy of payments made for overhead costs
- Adequacy and reasonableness of overhead costs compared to volume of production.
- Allocation and apportionment of overhead costs to cost centres or cost units.
- Correctness of calculation of overhead absorption rates.
- Treatment of under and over absorbed overheads.
- Method of valuation of closing stock to ensure that overhead costs are consistently included or excluded.

DEPRECIATION:

- Checking the asset register which should show cost, date of acquisition, scrap value and rate of depreciation.
- Verifying that cost of renovation if any has been properly added to the asset.
• Adequacy of depreciation rate.
• Consistency of depreciation rates from year to year.
• Allocation of depreciation cost to various cost centres in proportion of the utilization.

CAPITAL EXPENDITURE:

• Propriety and authority for a capital expenditure.
• Collection of capital expenditure and comparison with budget regularly.
• Accounting of capital expenditure including transportation, erection and installation charges, etc., to the capital heads.
• Maintenance of proper asset register
• Correctness of depreciation rates and physical verification of fixed assets.

CAPACITY UTILIZATION:

• Reasonableness of idle capacity and reasons for idle capacity.
• Reasonableness of cost of maintenance, repairs, replacement etc.
• General imbalance in production facilities.
• Optimum utilization of resources.