

## Quadrant II – Notes

**Paper Code:** COD 122

**Module Name:** End Use of Cost Audit Report.

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### Notes:

### End use of Cost Audit Report

- **To control its own operations:** Useful tool for the industry to control its own operations and improve industrial efficiency through cost consciousness at different levels of management.
- **Reviewing the operations:** The audited balance sheet and profit and loss account of a company are made use of by the shareholders for the purpose of reviewing the operations of a company at the end of an accounting period.
- **Effective management control mechanisms:** Cost audit are effective management control mechanisms and as such a management tool. The introduction of a cost control mechanism is the real purpose behind the cost accounting and audit provisions of the companies Act.
- **Accompany with Income Tax Returns:** The amendments to Income Tax Act has provided that every income tax return from a company shall be accompanied by a copy of the cost audit report in case the company is subject to cost audit. Tax authorities generally rely on audited statements to determine tax liability of the entity.
- **Fixing up the selling prices:** It provides reliable data to the government for fixing up the selling prices of the various commodities. Cost audit facilitates fixation of price which is profitable to producers and reasonable to consumers. This is obviously because of reliable cost data furnished to it by producers whenever needed or demanded by Government.
- **Regulating the prices:** Cost audit aims at regulating the prices of commodities. Cost audit report is made use of by price fixing authorities like

Bureau of industrial costs and prices or other price fixing agencies, under certain circumstances. The Government and the trade associations may require cost audit for the purpose of fixing selling prices to prevent excessive profit making.

- **Detect sickness of units:** The details on the performance of the different units are quite useful to monitor the profitability and detect sickness of units in advance. It also helps in adopting measures for the rehabilitation of business unit.
- **Banks and lenders:** Banks and Lenders rely on audited statement of a business to sanction loans to it. Before sanctioning the loans or advances to the business sector the Banks or Financial Institutions verifies the Audited Statements to know the financial position of the company.
- **Obtaining licences:** It helps in obtaining licences for either expansion or diversification of the various product-lines of the business. Audited accounts and statements are considered as the true and correct documents while issuing licences.
- **Assists the financial auditor:** Cost audit assists the financial auditor because he can safely rely on many important costing data such as cost of closing stock of raw materials, work-in-progress and finished goods.
- **Pinpoints the Labour working efficiency:** Cost audit report also helps in pinpointing the working efficiency of the employees. Thus, it also helps in exercising control over the labour cost resulting in the reduction of the product cost and improvement in labour efficiency.
- **Identify the symptoms of sickness:** It provides information relating to weak, inefficient or mismanaged units for taking proper corrective action. It also helps to identify the symptoms of sickness in a unit.
- **Utilisation of Funds:** Cost audit reveals whether funds invested by shareholders are being profitably used in the business. It not only highlights the financial position of the company but also discloses how effectively the fund invested by the shareholders has been utilised by the company. Thus, shareholders are assured of a fair return on their investment.

- **Settlement of Insurance claims:** Audited cost audit statements and Report also helps the Insurance company for the settlement of the Insurance claims. Insurers rely on them to settle claims in respect of lost or damaged business assets.
- **Provision of Subsidy:** In case a particular firm or industry requiring protection through bounty or subsidy, identification by the Government is possible on the basis of cost information provided by cost accounting records duly audited by the cost auditor.
- **Comparision between efficient and inefficient units:** Cost audit is of immense help to the Government in making distinction between efficient and inefficient units in an industry. Such a distinction enables Government to concentrate on improving the efficiency of the inefficient units.
- **Identifies the problem areas:** A cost auditor through his cost audit report highlights cost data and other statistical information for each of the system and sub system for the current year. The cost auditors also highlights variations and suggests areas for improvements in performance and thereby identifies the problem areas for taking necessary corrective action.
- **Useful to the society:** Cost audit is useful to the society as it is often introduced for the purpose of fixation of price. The prices so fixed are based on the correct costing data and so the consumers are saved from exploitation. Since price increase by the industry is not allowed without proper justification so as to increase in cost of production, consumers can maintain their standard of living.
- **Assist the financial auditor:** The data supplied by cost accounts audited by the cost auditor can be taken as correct by the financial auditor. Thus, the task of the financial auditor is greatly facilitated if cost accounts are audited.
- **Consumers are saved from unreasonable price:** Consumers are saved from unreasonable price increase because price increase by the industry is not allowed without proper justification as to increase in cost of production. Thus, consumers are saved from exploitation.