

# FINAL EXAMINATION

December 2014

F-P17(COA)

**Syllabus 2008**

## Cost Audit & Operational Audit

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

*Please: (1) Answer all bits of a question at one place.*

*(2) Open a new page for answer to a new question.*

*(3) Attempt the required number of questions only.*

*Working notes should form part of the answer.*

*Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates.*

### SECTION A (50 Marks)

#### (Cost Audit)

*Answer Question No. 1 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.*

1. (a) State whether the following statements based on the quoted terms are "True" or "False" with justifications for your answer. No credit will be given for any answer without justification: 1×5=5
- (i) Cost accounting standard on Repairs & Maintenance cost is dealt in CAS-12.
  - (ii) Cost statements and other working papers as prescribed under cost accounting record rules duly audited and signed by the auditors remain with the company.
  - (iii) The performance appraisal report is a public document and it can not be treated as confidential.
  - (iv) Out-put Costing is best used in Chemical Industry.
  - (v) Manager of an investment centre is required to earn a satisfactory return.
- (b) In each of the case/statements given below, one out of four alternatives is correct. Indicate the correct answer (only indicate A or B or C or D) as you think correct. 1×5=5
- (i) Clarification of cost audit report to be given to Cost Audit Branch by Cost Auditor by
    - (A) 30 days
    - (B) 45 days
    - (C) 60 days
    - (D) 180 days
  - (ii) Excisable clearance means
    - (A) only sale of goods from factory.
    - (B) total clearance from the factory.
    - (C) despatch from bonded warehouse.
    - (D) None of the above
  - (iii) The main purpose of "Efficiency Audit" is to ensure that
    - (A) various policies of management are implemented.
    - (B) planned expenditure gives optimum returns.
    - (C) every rupee invested gives optimum returns.
    - (D) activities of business are beneficial to society at large.

**Please Turn Over**

- (iv) Cost Audit was introduced in the year  
(A) 1956  
(B) 1959  
(C) 1965  
(D) None of the above
- (v) Cost audit report along with annexure and proforma are signed by  
(A) One Director and one Secretary  
(B) The Chief Finance Officer and Managing Director  
(C) The Chief Finance Officer and Secretary  
(D) All of the above
- (c) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): 1×4=4
- (i) CERA (Central Excise Revenue Audit) is conducted by the organisation of \_\_\_\_\_.
- (ii) Every Cost Auditor shall submit the cost audit report along with observation in form \_\_\_\_\_ as per Companies (cost records and audit) Rules, 2014.
- (iii) The forex component on purchase of imported material shall be priced at a rate on \_\_\_\_\_.
- (iv) Where any credit under Central Value Added Tax (CENVAT) is available on any material, the cost of such material shall be after \_\_\_\_\_.

2. (a) The following is the Abridged Balance Sheet of UPS Ltd. for the years 2013-14 and 2012-13:

	(₹ in lakhs)	
	31.03.2014	31.03.2013
<i>Liabilities</i>		
Share Capital	480	480
Debenture redemption reserve	25	35
Capital subsidy	35	35
Revaluation reserve	140	145
General reserve	145	140
Balance in Profit and Loss Account	48	40
Secured Loan	345	310
Unsecured Loan	115	102
	<hr/>	<hr/>
	1333	1287
<i>Assets</i>		
Gross block	780	797
Accumulated depreciation	(325)	(290)
Capital WIP	48	38
Investment	170	170

	(₹ in lakhs)	
	31.03.2014	31.03.2013
<i>Current Assets</i>		
Inventories	455	380
Sundry Debtors	185	195
Advance for Capital equipment	18	21
Other Loans and advances	160	138
Cash and Bank Balances	19	25
<i>Current Liabilities</i>		
Sundry Creditors		
for Capital Expenses	(19)	(21)
for others	(188)	(197)
Provision for Taxes	(62)	(71)
Miscellaneous Expenses	92	102
	1333	1287

Notes: (i) Fixed asset includes Goodwill and Patents ₹ 102 lakhs (Previous year ₹ 118 lakhs).

(ii) Term loans due for the payment within 12 months are ₹ 85 lakhs (Previous year ₹ 81 lakhs).

Calculate the following for the company:

- (i) Capital employed for both the years
  - (ii) Net worth as on 31.03.2013 and 31.03.2014
  - (iii) Debt equity ratio as on 31.03.2014 12
- (b) What disclosures are required to be made by a Company in respect of cost audit in its annual report? 2
- (c) What are the objectives for codification of cost accounts? 4
3. (a) Chandragupta & Sons Ltd. has received an enquiry for supply of 3,00,000 numbers of Special Type of Machine Parts. Capacity exists for manufacturing of the machine parts, but a fixed investment of ₹ 90,000 and working capital to the extent of 25% of Sales Value will be required to undertake the job.

The costs estimated as follows:

Raw Materials—30,000 kgs @ ₹ 3.50 per kg.

Labour Hours—10,000 of which 1,500 would be overtime hours payable at double the labour rate.

Labour Rate ₹ 3 per hour.

Factory Overhead—₹ 3 per direct labour hours.

Selling and Distribution Expenses—₹ 32,000.

Material recovered at the end of the operation will be ₹ 8,000 (estimated)

The Company expects a Net Return of 25% on Capital Employed.

You are Management Accountant of the Company. The Managing Director requests you to prepare a Cost and Price Statement indicating the price which should be quoted to the Customer. 9

- (b) General Cements Ltd. has a captive generation plant for its cement factory. The following information is available with regard to the power generation for the month of June, 2014.

Coal consumption	155 tons @ ₹ 500 per ton
Oil	220 litres @ ₹ 39.50 per litre
Water	1500 gallons at 60 per gallon
Stores and other consumables	₹ 4,000

Salaries of generating plant:

2 supervisors each at ₹ 6,500 p.m., 5 skilled workers at ₹ 3,500 p.m., 3 helpers at ₹ 2,200 p.m.

Salaries to boiler house attendant, 8 workers, each at ₹ 2,200 p.m.

Cost of generating plant—₹ 12,00,000 having life of plant 15 years with ₹ 75,000 residual value.

Cost of Boiler Plant—₹ 5,00,000 having life of plant 10 years with no residual value.

Miscellaneous income received by sale of ash— ₹ 4,000.

Repair and maintenance— Generating plant ₹ 8,500, Boiler house ₹ 5,500.

Share of Administrative Overhead— ₹ 6,250.

No. of units generated during the month— 4,00,000 units.

You are required to prepare the operating cost sheet to calculate the cost per unit of electricity generated considering no power generated is used by generating plant itself. 9

4. (a) Comment on the following:

3 × 5 = 15

- (i) During plant stoppages the direct machine operator of the production floor is being utilised by the company for cleaning, oiling and other routine jobs of the same plant. Their wages for the period also are treated as direct wages in cost of production.
- (ii) A company started commercial production in June, 2012. The product is covered under Cost Audit. In the end of the first Financial Year the Turnover of the company is below the norms of Turnover as per Cost Audit Order. In the Second Year the company exceeds the Turnover as per Cost Audit Order. State the year when the Cost Audit is applicable.
- (iii) Sugar mills use bagasse as fuel in the boilers. Sugar Mill has not valued bagasse as according to the management it has incurred no cost. State how it can be valued.
- (iv) A company has 2 Wind Mills. Turnover from the two Wind Mills is ₹ 15 crores. The Company's total turnover is ₹ 100 crores. Other activities other than Wind Mill is not covered under Cost Audit Order. Whether, the company will need to get Cost Audit done of Electricity generation activities under Cost Audit Order.
- (v) A Kavari Company Limited been formed by Joint Venture by two companies. Ganga Company Limited share is 52% and Padma Company Limited share is 48%. Kavari Company Limited generate Electricity and selling electricity entirely to Padma Company Limited. No sale of electricity is made to outside customer. Whether Cost Audit is applicable to Kavari Company Limited.

- (b) How would you treat the Leased Assets as per CAS 11 related to Administrative Overheads?

**SECTION B (50 Marks)**  
**(Operational Audit)**

*Answer Question No. 5 (carrying 14 marks) which is compulsory and  
Answer any two (carrying 18 marks each) from the rest in this Section.*

5. (a) Fill in the blanks in the following sentences by using appropriate word(s)/phrases(s)/number(s): 1×5=5
- (i) Reports of cost accountant in special audit is an \_\_\_\_\_.
  - (ii) The term \_\_\_\_\_ means, for insurance purpose, the present cost of construction of similar building, after deducting from the cost, depreciation based on age, usage, maintenance etc.
  - (iii) \_\_\_\_\_ audit is a step towards the pursuits of environment quality management.
  - (iv) Usually the manufacturer of machinery mentioned the specification of machinery as \_\_\_\_\_ capacity.
  - (v) In a \_\_\_\_\_, the manager is held responsible for level of revenue or output generated at the centre.
- (b) State whether the following statements based on the quoted terms are "True" or "False" with justifications: 1×4=4
- (i) Production cost efficiency alone is no guarantee of Profit.
  - (ii) Loss on sale of fixed assets is an item of both cost accounts and financial accounts.
  - (iii) Management audit is carried out to appraise the management performance at top level of management.
  - (iv) ERP bridges the information gap across the organisation.
- (c) What the following abbreviations stand for? 1×5=5
- (i) OECD
  - (ii) ISAE
  - (iii) QRB
  - (iv) CAASB
  - (v) IFAC
6. (a) What are the areas in which due diligence exercise can take place? 5
- (b) What do you understand by environmental audit? Enumerate the major areas in which environmental pollution is caused by the Industries. 9
- (c) State briefly the mandatory review areas of the Audit Committee. 4
7. (a) What are the items required to be covered before verifying the valuation of inventories? 9
- (b) State why it is essential to implement proper internal control system in an organisation. 5
- (c) How is the audit in an organisation under ERP (Enterprise Resource Planning) environment different from other audit? 4
8. Write short notes on *any three* out of the following: 6×3=18
- (a) Control and prevention of Management frauds
  - (b) International Auditing and Assurance Standard Board
  - (c) Difference between Special Audit by Custom and Special Audit by Excise Departments
  - (d) Disclosure and transparency of Corporate Governance