

FINAL EXAMINATION

December 2016

P-19(CMAD)

Syllabus 2012

Cost and Management Audit

Time Allowed: 3 Hours

Full Marks: 100

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

SECTION-A has one question which is compulsory. Attempt this question.

SECTION-B has seven questions. Attempt any five of them.

Working Notes should form part of the respective answers.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

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

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

Section-A (20 Marks)

Answer the following:

1. (a) **Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s):**

1×5=5

- (i) The Cost Audit Report is required to be in conformity with the 'Cost Auditing Standards' as referred to in section _____ of the Companies Act, 2013.
- (ii) Power generation, Telecommunication services fall in _____ sector as per Companies (Cost Records and Audit) Rules, 2014.
- (iii) The FOREX component of imported material cost shall be converted at the rate on the date of the _____.
- (iv) The review of Organization Plan, Policies, Structure are done through _____ audit.
- (v) Cost Accounting Standard on Cost of Service Cost Centre is dealt in _____.

- (b) **State whether the following statements given below are TRUE or FALSE:**

1×5=5

- (i) Part-D Para-4 of the Annexure to cost Audit Report under the companies (Cost Records and Audit) Rules 2014 deals with Profit Reconciliation (for the company as a whole).
- (ii) Cost Audit and Management Audit are one and the same.
- (iii) Main objective of Internal Audit is to prevent errors and frauds.
- (iv) Government Audit does not comment on economy and efficiency other than viewing on fairness of financial statement.
- (v) A Limited liability partnership firm registered under the Limited Liability Partnership Act, 2008 can be appointed as Cost Auditor of a company.

Please Turn Over

(c) Answer any five of the following in one or two sentences:

2×5=10

- (i) The Cost Auditor of a company was offered to act as ERI (e-Return Intermediary) for filing income tax related matter on behalf of one of its subsidiary company.
Can the Cost Auditor accept the assignment?
- (ii) Explain 'Corporate Development Audit.'
- (iii) Whether the companies (Cost Records and Audit) Rules 2014 is applicable to a company which is generating electricity for captive use?
- (iv) How would you treat demurrage charges as per CAS-15?
- (v) What is the time limit within which the cost Auditor of the company should submit his report?
- (vi) Whether all petroleum products are covered under the Companies (Cost Records and Audit) Rules, 2014?

Section-B (80 Marks)

Answer any five questions (carrying 16 marks each) from question no. 2 to question no. 8.

2. (a) MITHAS LTD. is a top sugar manufacturer and exporter in India operating from Noida Special Economic Zone, Uttar Pradesh. Its revenue from sale/export for the current year is given below:

Sale within India	₹ 153 lakhs
Sale outside India (Export)	₹ 357 lakhs
Total Revenue	₹ 510 lakhs

Mr. X, the statutory auditor of Mithas Ltd., is of the view that the company is mandatorily required to include cost records in their books of account and consequently conduct cost audit. He also suggested the name of his friend, who is a Cost Accountant in Practice, for the purpose of such cost audit. However, the management is of the view that the company neither required including cost records in their books of account nor conduct cost audit.

Being an expert in cost records and audit rules, you are required to guide the management in this regard.

- (b) The cost accountant of URASHI LTD. a cement company has arrived at a profit of ₹ 732,40,000 based on cost accounting records for the year ended March 31, 2016. In the course of Cost Audit you come the following differences between the Financial Accounts and Cost Accounts:

(Amount in ₹ Thousand)

(i)	Loss on Sale of Fixed Assets	61
(ii)	Profit on Sale of investments	1,200
(iii)	Donation paid	200
(iv)	Loss from Retail trading activity	5,100
(v)	Voluntary retirement compensation included in salary and wages in financial accounts	16,800
(vi)	Major repair and maintenance written off in Financial Accounts (Amount reckoned in cost accounts of ₹ 6,100 thousand for this job)	10,300
(vii)	Insurance claim relating previous year received during the year	14,300
(viii)	Element of profit on self consumption of cement included in financial accounts	720
(ix)	Interest income from inter-corporate deposits	6,100
(x)	Increase in value of work-in-progress and finished goods inventory was as follows: (₹ in Thousand)	
	As per Financial Accounts 9,200	
	As per Cost Accounts 6,150	

You are required to prepare a Reconciliation Statement and arrive at the profit as per financial accounts for the year ended March 31, 2016. 4+5+1=10

3. (a) **What disclosures** are required to be made in cost statement as per CAS-20 as regard to Royalty and Technical know-how fee? 5

- (b) SHARATHI LTD. a tyre and tube manufacturing company is having turnover of ₹ 75 crores from all its activities. The company has filed its prospectus with SEBI for a public issue of equity shares and it hopes to complete the public offering by September, 2015 end.

Whether cost audit will become applicable to the company? If yes, then from which financial year will cost audit become applicable? 6

- (c) **Explain what** is the procedure for appointment of a cost auditor of the company under the Companies Act, 2013. 5

Please Turn Over

4. The following figures are extracted from the Books of VENNELA LTD., a Multi products Company mainly producing Cement and Readymix Concrete for the years ended March 31, 2016 and 2015.

Year ended 31st March	2016	2015
Particulars	(Amount in ₹ Millions)	
Gross Sales including Excise Duty :	7,720	6,180
Excise Duty	600	480
Other Income	450	300
Export Incentives	80	60
Increase in Value of Stock of Finished Goods	30	15
Raw materials consumed	2,640	2,160
Direct wages, salaries, bonus, gratuity etc.	660	528
Power & Fuel	360	288
Stores and spares	240	210
Other manufacturing overheads	645	555
Administrative Overheads :		
Audit fees	54	45
Salaries & commission to directors	72	60
Other overheads	390	330
Selling and distribution overheads :		
Salaries & Wages	54	45
Packing and forwarding	30	24
Other overheads	375	300
Total depreciation	180	180
Interest Charges :		
On working capital loans from Bank	90	75
On fixed loans from IDBI	135	105
On Debentures	45	45
Tax paid including provisions	474	300
Dividend paid	630	345
Dividend Distribution Tax	110	60

You are required to **calculate** the following parameters as stipulated **PART-D, PARA-3** of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2016 and March 31, 2015:

- (i) Value addition
- (ii) Earnings available for Distribution
- (iii) Distribution of Earnings to the different claimants

8+1+7=16

5. (a) GOLDEN FIBRE LTD. producing Jute goods wants to participate in the 'Swatch Bharat Mission' of Government of India.

Discuss about the social commitment of the corporates towards environment pollution control and the treatment of costs as per CAS-14.

5+3=8

- (b) ABUNA ELECTRONICS LTD. is engaged in the manufacture of LED TV sets having its factories at Patna and Gujarat. The company manufactures picture tube at Patna which is consumed to produce LED TV sets at Gujarat factory. The following information pertaining to captively consumed picture tubes are extracted from the records of the company for the Half year ended March 31, 2016.

(Amount in ₹ Thousand)

Direct material inclusive of excise duty ₹ 94 thousand	1,044
Direct wages and salaries	357
Direct expenses	80
Indirect materials	70
Factory overheads	320
Administrative overheads (20% relating to production activities)	640
Quality control cost	100
Research and development cost	125
Selling and distribution expenses	225
Sale of scrap realised	130
Profit margin	15%

You are **required to determine:**

- (i) The cost of production for purpose of captive consumption in terms of Rule-8 of the Central Excise Valuation (Determination of price of Excisable Goods) Rules and as per CAS-4, and
- (ii) Also Assessable Value for the purpose of paying excise duty on Captive Consumption.

6+2=8

6. (a) When the internal auditor uses the work of an expert, what precautions he should undertake? 6
- (b) Explain what are the objectives of Operational Audit. 6
- (c) What do you understand by "Audit Risk" as per Cost Auditing Standard-101 on 'Planning an Audit of Cost Statements'? 4

7. (a) The term 'Image' in relation to a company refers to how it is perceived by the public at large.

Please Turn Over

Keeping this in mind how would a Management Auditor approach to evaluate the Corporate Image of a company?

Discuss the technique available to the Management Auditor to evaluate the Corporate Image. 4+4=8

- (b) ASHIRBAD CEMENT LTD. has a captive power generation plant for its cement factory. The following information is available with regard to the power generation for the year ended March 31, 2016:

Coal consumption	2400 tonnes @ ₹ 600 per tonne
Oil	3000 liters @ ₹ 50.50 per litre
Water	24000 gallons at ₹ 60 per gallon
Stores and other consumables	₹ 55,000

Salaries of power generating plant:

2 supervisors each at ₹ 10,600 p.m., 5 skilled workers each at ₹ 6,100 p.m., 3 helpers each at ₹ 4,200 p.m.

Salaries to boiler house attendant, 8 workers, each at ₹ 4,200 p.m.

Cost of power generating plant—₹ 15,00,000 having life of plant 15 years with ₹ 60,000 residual value.

Cost of Boiler plant—₹ 6,00,000 having life of plant 10 years with no residual value.

Miscellaneous income received by sale of ash—₹ 50,000.

Repair and maintenance—Power generating plant ₹ 1,50,000, Boiler house ₹ 1,26,000.

Share of Administrative Overhead—₹ 1,35,000.

Power generated during the year: **3024250 KWH.**

Note: No power generated is used by the power generated plant itself.

You are **required to prepare the Cost Sheet** to calculate cost per kWh of electricity generated as per the companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2016. 8

8. (a) TROMA LTD., a manufacturing unit, produces two products PB and PS. The following information is extracted from the Books of the Company for the year ended March 31, 2016:

Particulars	Product PB	Product PS
Units Produced (Qty.)	2,10,000	1,68,000
Units sold (Qty.)	1,68,000	1,36,500
Machine hours utilized	1,26,000	84,000
Design charges (₹)	1,57,500	1,89,000
Software development charges (₹)	2,62,500	3,78,000

(i) Royalty paid on sales ₹ 6,09,000 [@ ₹ 2 per unit sold for both the products].

(ii) Royalty paid on units produced ₹ 3,78,000 [@ ₹ 1 per unit produced for both the products].

(iii) Hire charges of equipment used in the manufacturing process of product PB only ₹ 53,000.

Note: No adjustments are to be made related to units held i.e. Closing Stock.

You are required to compute the **DIRECT EXPENSES**—keeping in view of Cost Accounting Standard (CAS)-10. 6

- (b) Who is the approving authority of the Company to fix the remuneration of the Cost Auditor? 3
- (c) Write a note on "Audit Committee" under the Companies Act, 2013 in brief. 7
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