

## FINAL EXAMINATION

June 2017

**P-19(CMAD)**  
**Syllabus 2016**

### Cost and Management Audit

Time Allowed: 3 Hours

Full Marks: 100

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

Answer *Question No. 1* which is compulsory and carries 20 marks and  
any five questions from *Question Nos. 2 to 8*.

### Section-A (20 Marks)

1. Choose the correct answer with short justification/working. (1 mark for correct choice, 1 mark for justification/working) 2×10=20
- (i) Part C of the Annexure to the Cost Audit Report in CRA 3 deals with \_\_\_\_\_.  
(A) Manufacturing Sector  
(B) Service Sector  
(C) Regulated Sector  
(D) Unregulated Sector
- (ii) Cost Accounting Standard 8 is a Cost Accounting Standard on \_\_\_\_\_.  
(A) Employee Cost  
(B) Utilities Cost  
(C) Pollution Control Cost  
(D) Selling and Distribution Cost
- (iii) Under the Generally Accepted Cost Accounting Principles, the cost of cane supplied from own farm to the sugar mill is treated as \_\_\_\_\_.  
(A) Direct Materials Cost  
(B) Indirect Materials Cost  
(C) Production Overhead  
(D) Administrative Overhead

**Please Turn Over**

- (iv) Constitution of Audit Committee by the Board of Directors is mandatory for \_\_\_\_\_.  
(A) all companies  
(B) all listed companies only  
(C) all listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only  
(D) all public companies having turnover of ₹100 crore or more only
- (v) Cost Auditing Standard 102 deals with \_\_\_\_\_.  
(A) planning an Audit of Cost Statements  
(B) Cost Audit Documentation  
(C) knowledge of process and business  
(D) overall objectives of the Independent Cost Auditor
- (vi) As per the Central Excise Valuation Rules 2000, the assessable value of goods used for captive consumption is \_\_\_\_\_.  
(A) at actual cost of production of such goods  
(B) at marginal cost of production of such goods  
(C) at 110% of cost of production of such goods  
(D) at market price of such goods
- (vii) A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is \_\_\_\_\_.  
(A) 730.27 kg.  
(B) 725.27 kg.  
(C) 742.27 kg.  
(D) 749.97 kg.
- (viii) Operational Audit can lead to better management with the focus on \_\_\_\_\_.  
(A) transaction-based analysis for fraud prevention  
(B) compliance of rules  
(C) risk identification, process improvement  
(D) budget monitoring

- (ix) A shoe manufacturing company has a plant capacity of producing 700 shoes per shift. During the year of 300 working days, 3 shifts of 8 hours with half-hour recess per shift, it produces 35.91 lakh shoes. The Normal Capacity Utilization percentage is \_\_\_\_\_.
- (A) 82%
- (B) 76%
- (C) 74%
- (D) 78%
- (x) Propriety Audit in the context of Government Audit seeks to ensure that \_\_\_\_\_.
- (A) public money are not spent for the benefit of a particular person
- (B) public officer should exercise same vigilance as in respect of expenditure of his/her own money
- (C) no authority should pass an order which will be directly or indirectly to its own advantage
- (D) All the above

### **Section-B (80 Marks)**

2. (a) What is meant by 'Normal Price' with reference to 'Related Party Transaction' in CRA1? State the basis adopted to determine 'Normal Price'. 8
- (b) Mr. P. Swamy, the Cost Auditor of PQR Ltd. for the FY 2016-17, was offered an assignment of Investment Consultant of RST Ltd., a subsidiary of PQR Ltd., for the same year.
- (i) Whether the acceptance of the assignment amounts to violation of law and professional misconduct?
- (ii) What are the penal provisions, if any? (Mention the relevant provisions.) 4+4=8
3. (a) While commencing Cost Audit of a manufacturing company, how the Auditor would assess the risk of material misstatement? 8
- (b) Autoparts Manufacturing Company Ltd. showed a profit for the year 2016-17 as ₹35,46,700. During the course of Cost Audit, the followings transactions were noticed:
- (i) an old machine with net value of ₹6,54,000 was sold off for ₹9,30,000,
- (ii) dividend income was received amounting to ₹84,500 from investments,

- (iii) a sum of ₹58,000 was spent towards CSR commitment,
- (iv) the company was engaged in trading activity where purchase of goods was ₹13,50,000 and sales was ₹13,42,300, after incurring ₹40,800 as expenditure,
- (v) some renovation work was carried out at a cost of ₹7,75,000 and its useful life was only for five years, and
- (vi) the closing inventory of raw material was undervalued ₹29,600 and that of finished goods was overvalued ₹65,400 in the financial records. Work out the Profit as per the Cost Accounts. 8

4. (a) Discuss

- (i) the areas of 'Corporate Services' and
- (ii) the evaluation criteria used in 'Corporate Services Audit'. 4+4=8

- (b) What is Corporate Social Responsibility (CSR) Committee and its role as per the Companies Act, 2013? Describe the coverage of a CSR Audit Programme. 8

5. (a) (i) What are the mandatory requirements for appointment of Internal Auditor in a listed company?

- (ii) Who are the persons eligible for appointment as Internal Auditor? 4+4=8

- (b) You have been appointed as an Internal Auditor for CENVAT Audit of Kwaliti Alloy Ltd. which is a large manufacturing concern. Draft a suitable audit programme for the above. 8

6. (a) The financial position of Hind Automobiles Ltd. for the years 2016-17 and 2015-16 are given below. From the figures, find (i) Capital Employed, (ii) Debt-Equity Ratio, (iii) Proprietary Ratio, and (iv) Current Ratio.

(₹in '000)

Liabilities	31.03.17	31.03.16	Assets	31.03.17	31.03.16
Capital (Equity)	600	600	Fixed Assets	2400	1800
General Reserves	414	326	Less: Depreciation	840	600
Revaluation Reserve	110	125	Net Fixed Assets	1560	1200
Profit/Loss A/c Balance	122	54	Stock	720	600
Loan-Secured	385	467	Sundry Debtors	410	300
Loan-Unsecured	655	128	Cash & Bank Balances	180	120
Sundry Creditors	560	480	Other Current Assets	40	30
Provision for Tax	64	70			
<b>Total</b>	<b>2910</b>	<b>2250</b>	<b>Total</b>	<b>2910</b>	<b>2250</b>

- (b) Saharanpur Sugar Mill Ltd. has a boiler that uses the unit's own by-product, cane waste (Bagasse), as fuel which has a market price of ₹750 per ton. The steam generated is first used for the generation of power and the exhaust steam is used in the process of sugar manufacture. The exhaust steam (after generation of power) transferred to the sugar manufacturing process is 84% of the cost of production of steam. The mill buys restricted amount of power from the grid. The following details are extracted from the Financial Accounts and Cost Accounting Records of the Sugar Mill:

Sugar produced	28,70,000 quintals
Steam generated and consumed	17,58,000 ton
Fuel (Bagasse) consumed for production of steam	8,22,000 ton
Conversion Cost of generation of steam	₹ 10,97,00,000
Steam used for generation of power	7,44,000 ton
Power purchased from the Electricity Board @ ₹ 5.84/kWh	67,92,000 kWh
Power generated from the Steam Turbine	5,82,30,000 kWh
Conversion Cost of generation of power (excluding cost of steam)	₹ 5,06,61,500

Find out (i) Gross Cost of Steam per ton of Steam, (ii) Average Cost of Power per kWh and (iii) Average Cost of Power per ton of Sugar. 8

7. (a) A Cloth processing unit has two Rotary Printers-P1 and P2- running on two shifts, having normal capacity of 4600 hours. The unit can process two products X and Y which have the following cost structure:

Per 50 mts. of cloth	X	Y
Machine Hours required for P1	3	4
Machine Hours required for P2	3	4.5
Processing Fees (₹)	480	560
Direct Materials Cost (₹)	120	150



	Machine P1	Machine P2
Direct Labour/hr. (₹)	48	40
Variable overhead/hr. (₹)	30	22

In case of breakdown of any one machine, the management has to be selective in processing of products. Assuming that there is no other constraint of order book or costs, arrange the products in terms of profit. 8

- (b) Goodyear Automotives Ltd., located in a coastal state, had faced interruption in production during the year 2016-17 due to cyclone and flood. Out of total 303 available working days during the year, the interruptions were: (a) Flood: 4 days, (b) Cyclone: 3 days, and (c) Damage Restoration: 2 days (these exclude weekly off days falling in between). The unit declared lay-off during such period on payment of average 50% wages for direct workers. The damage to the plant and the cost of its repairs amounted to ₹ 87 million. Find out the abnormal expenses deductible from the product cost on the basis of the following expenses incurred in the FY 2016-17:

Amount in millions

Direct Wages & Salaries	1230	Indirect Wages & Salaries	740
Power	820	Depreciation	210
Other Fixed Expenses	490	Finance Charges	115

8

8. Answer any four.

4×4=16

- (a) How do you define 'Packing Material' as per the Generally Accepted Cost Accounting Principle? What is the treatment of such cost? 4
- (b) Suggest some checklists the Cost Auditor should draw for Profitability Analysis in a manufacturing organization. 4
- (c) What do you understand by 'Energy Audit'? Briefly state the functions of Energy Auditor. 4

- (d) ABC Stores is a departmental store, selling goods on retail basis. It makes a gross profit of 20% on net sales. The following figures for the year-end are available:

Opening Stock ₹62,000, Purchases ₹4,46,000, Purchase Returns ₹12,500, Freight Inwards ₹15,000, Gross Sales ₹5,60,000, Sales Returns ₹14,000 and Carriage Outwards ₹8,000.  
Calculate the estimated cost of the Inventory on the closing date. 4

- (e) During the Energy Audit of Reliable Engineering Ltd., the following figures relating to usage of power were placed before the Auditor:

	2016-17	2015-16	2014-15
Total Power consumed (kWh)	2642720	2744360	2393250
Rate per kWh (₹)	6.29	5.42	4.90
Total Production (in million kg.)	422.16	416.36	376.08

Compute the necessary productivity measures and (i) Price Variance and (ii) Volume Variance of power usage during these years. 4