

Paper-17 - COST AUDIT & OPERATIONAL AUDIT

Time allowed-3 hrs.

Full Marks: 100

**Section I (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.

Working Notes should form part of the answer.

“Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates”

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 justifications. [6×1=6]

- (i) In view of e-filing of Cost Audit Report, only one hard copy is required to be submitted to the Cost Audit Branch.
- (ii) Cost Audit is to be conducted only when the shareholders of the company direct such an audit at the Annual General Meeting.
- (iii) In case of appointment of Cost Auditor in Partnership firm's name, all the partners of the firm must be the Cost Accountants but the partners need not be the practicing Cost Accountants.
- (iv) A Cost Accountant who has been appointed as Cost Auditor of the company can authenticate the Compliance Report of the same company.
- (v) CAS -6 deals with determination of capacity of a unit.
- (vi) As per CAS-12, fines, penalties, damages and similar levies paid to Statutory Authorities or third parties shall form part of repair and maintenance cost.

(b) Choose the most correct answer among four alternatives: [8×1=8]

(i) Cost Auditor should inform to the Central Government in Form 23D of his appointment within :

- A. 90 days from receiving formal letter from the company.
- B. 30 days from receiving formal letter from the company.
- C. 90 days from the date of commencing of the current financial year.
- D. 45 days from the date of commencing of the current financial year.

(ii) The structuring of Cost Audit includes

- A. Audit Programmes
- B. Audit working papers
- C. Checking including test checking
- D. All of the above.

(iii) Time limit for submission of Compliance Report is within

- A. One hundred and twenty days
- B. One hundred and eighty days
- C. Forty five days
- D. One hundred and thirty five days

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(iv) CAS - 4 deals with

- A. Determination of Cost of Production for Captive consumption
- B. Determination of Average (equalized) Cost of Production
- C. Determination of Capacity of a Unit
- D. None of the above.

(v) As per _____ Outward Transportation Cost shall form part of cost of sales.

- A. CAS-5
- B. CAS-6
- C. CAS-9
- D. CAS-10.

(vi) Cost Audit was initially introduced in the year

- A. 1959
- B. 1960
- C. 1965
- D. None of the above.

(vii) Excisable clearance means:

- A. Only sale of goods from factory
- B. Removal from godown
- C. Dispatches from bonded warehouse
- D. Total clearance from factory.

(viii) The main purpose of 'Efficiency Audit' is to ensure that

- A. Every rupee invested gives optimum returns
- B. Planned expenditure gives optimum returns
- C. Various policies of management are implemented
- D. Activities of business are beneficial to Society at large

2. (a) Write short note on - True and Fair Cost of Production. **[5]**

(b) State the provision for maintaining cost records in case of company having its branch both within and outside India. **[6]**

(c) (i) State the applicability of Companies (Cost Accounting Record) Rules,2011;

(ii) Define - Product ; Manufacturing Activity ; Turnover, as per the Companies (Cost Accounting Record) Rules,2011. **[3+(1+2+1)]**

3. (a) (i) State the areas covered under Cost Accounting Policy in the light of Companies (Cost Audit Report) Rules,2011.

(ii) Discuss the provisions relating to " Ceiling on Number of Cost Audits" as per Companies Act,1956. **[5+7]**

(b) X Ltd. claims "Turnover" for the purpose of Cost Records to be ₹20,00,00,000 for the financial year 2013-14. The company claims that since the turnover has not exceeded ₹20 crores during the financial year, they are excluded from the ambit of maintaining cost accounting records. The company is listed not listed in any stock exchange and has a net worth of ₹4 crores. On examination of financial records, the following relevant information was identified:

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| Particulars | Amount (₹) |
|--|---|
| Income from Operating Activities - Sale of Goods (exclusive of taxes) - Rendering of Services | 5,00,00,000 15,00,00,000 (inclusive of service tax) |
| Income from Job Work | 2,17,93,000 |
| Income from Loan License operations | 1,43,45,000 |
| Subsidies received from the Government | 41,50,000 |
| Export Incentives received from Government | 31,20,000 |
| Profit on sale of Non-current Assets | 12,50,000 |
| Discount received in Cash from Vendor (15 days after full payment was made) | 3,20,000 |

Calculate "Turnover" as per Companies (Cost Accounting Record) Rules, 2011.

[6]

4. (a) Z Ltd. furnished the following information related to the net margin (profit/loss) as per cost records, which is different from such as per financial records.

| Particulars | Prod A | Prod B | Prod C | Prod D | S1 | S2 | S3 |
|---|--------|--------|--------|--------|------|------|-------|
| Product/Service Group | 0401 | 0401 | 0405 | 0405 | XA | XB | XB |
| Turnover (excluding Excise Duty and/or other statutory levies (₹ crores)) | 10.50 | 11.25 | 14.75 | 18.60 | 3.69 | 7.91 | 12.45 |
| Cost of Sales (₹ crores) | 8.39 | 9.98 | 11.37 | 21.75 | 2.08 | 4.27 | 8.67 |
| Margin (₹ crores) | 2.11 | 1.27 | 3.38 | (3.15) | 1.61 | 3.64 | 3.78 |

Other information:

- (i) Discount allowed by vendor was subsequently received in cash for products A, B, C & D to the extent of ₹0.15 crores; ₹0.07 crores; ₹0.02 crores and ₹0.07 crores respectively, not considered in cost accounts.
- (ii) Premium on forward contract for Product A ₹0.03 crores not considered in cost accounts;
- (iii) Liquidated damages paid to vendor for Product A - ₹0.15 crores not considered in cost accounts;
- (iv) Dividends received on investment outside the business ₹0.30 crores considered in financial records only;
- (v) Profits on sale of non-current assets ₹ 0.15 crores considered in financial accounts only;
- (vi) Unabsorbed Administrative Overheads due to under-utilization of capacities ₹0.27 crores not considered in cost accounts;
- (vii) Margin from Trading Activities ₹4.05 crores both as per financial and cost records;
- (viii) Value of Stock

| Value of Stock as per | As per Cost Records | As per Financial Records |
|-----------------------|---------------------|--------------------------|
|-----------------------|---------------------|--------------------------|

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| | | |
|------------------------|-------------|-------------|
| Opening Balance | 3.98 crores | 4.15 crores |
| Closing Balance | 2.67 crores | 2.12 crores |

Prepare Margin (Profit/Loss) Reconciliation Statement considering cost accounts and financial accounts. **[8]**

(b) In a factory, the production department has worked at 50% of its normal capacity on account of shortages of skilled labour and raw materials during the year. The cost records contain the following information among other :

| Particulars | Amount (₹) | Amount (₹) |
|--------------------------|-------------------|-------------------|
| Direct Labour Cost | | 5,00,000 |
| Works Overhead - Fixed | 2,00,000 | |
| Works Overhead- Variable | 2,50,000 | 4,50,000 |

The company charges the works overhead to work-in-process as a percentage of direct labour cost. Accordingly, its Accounts Officer claims that 90% should be charged ; whereas you (as a cost auditor) claim that it should be much than this.

- A. Establish your claim with reasons, and
B. Give your opinion, if any.

[4]

(c) Following are the sales and cost data of a manufacturing firm for two years :

| Particulars | 2012-13 (₹crores) | 2013-14 (₹crores) |
|--------------------------|--------------------------|--------------------------|
| Mfg. Cost of goods sold | 14.5 | 16.0 |
| Selling expenses | 0.9 | 1.2 |
| Administration expenses | 1.2 | 1.5 |
| Financial Charges | 0.4 | 0.3 |
| Excise Duty | 2.0 | 2.0 |
| Sales (including excise) | 20.0 | 22.0 |

Required : (i) Prepare a Profit Variation Statement and (ii) Account for the cause-wise changes in profit. **[6]**

Section II (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)/phrase(s)/number(s): **[6×1=6]**

- (i) Management Audit requires _____ approach.
(ii) Excise-Audit-2000 was initiated from _____ .
(iii) Section 292A of the Companies (Amendment) Act 2000, provides for Constitution of _____ .
(iv) India had to remove _____ on imports as per WTO stipulations.

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(v) _____ is transfer of goods to an alien market at a price which is less than marginal cost of its production in the home country.

(vi) Central Excise Revenue Audit (CERA) is conducted by the organization of_____.

(b) 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 justifications: [8×1=8]

- (i) The Consumer Service Audit critically examines the outstanding payment of consumer.
- (ii) GATT and its agreement are permanent.
- (iii) Sarbanes-Oxley Act of 2002 is a U.K. Federal Law enacted on July 30, 2002.
- (iv) Interest Cost should be included in inventory valuation for purposes of Bank Audit.
- (v) Management Audit Report is to be submitted to the Cost Audit Branch of Central Government.
- (vi) Audit Committee should meet at least three times in a year as per Clause-49 of the listing agreement.
- (vii) The secretariat of WTO will be headed by a secretary.
- (viii) Physical verification of stock is not a part of Stock Audit conducted by a bank or their authorized person.

6. (a) A company undertakes manufacture of Steel Pipes and Steel Tubes. Its sales and profit data for the financial year ended 31st March, 2014 are :

| | |
|-----------------|--------------|
| Total Net Sales | ₹2,70,40,000 |
| Gross Profit | ₹59,20,000 |
| Net Profit | ₹17,70,000 |

The Balance Sheet as at 31st March, 2014 (not in Revised Schedule VI)

| Liabilities | ₹ (crores) | Assets | ₹ (crores) |
|---------------------------|----------------|----------------------------|----------------|
| Capital | 1,14,00 | Cash in hand | 1,20 |
| Reserves and Surplus | 17,70 | Cash at Bank (SBI) | 10,20 |
| Secured Loans (IFCI) | 1,77,30 | Bills Receivables | 1,90 |
| Unsecured Loans | 52,00 | Sundry Debtors | 90,00 |
| Sundry Creditors | 37,40 | Finished Goods— | |
| | | Pipes & Tubes | 31,20 |
| Outstanding Liabilities : | | Work-in-Progress | 15,50 |
| Rent for March' 14 | 1,00 | Raw Materials - H.R. Skelp | 8,20 |
| Salaries for March' 14 | 60 | - C.R. Sheets | 4,20 |
| Power Charges | 10 | Deposits (long term) | 27,00 |
| Telephone Charges | 10 | Income Tax paid in advance | 1,00 |
| Bonus | 1,90 | Furniture | 30 |
| | | Buildings | 77,60 |
| | | Plant & Machinery | 1,33,80 |
| | 4,02,10 | | 4,02,10 |

(i) You are required to calculate —

a. Current Ratio,

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- b. Acid-test Ratio,
- c. Debt-equity Ratio,
- d. Turnover-fixed Assets Ratio,
- e. Net working Capital-Turnover Ratio,
- f. Return on Capital Employed Ratio,
- g. Net Profit Turnover Ratio,
- h. Value of Production to Net Worth Ratio, and

Offer your comments against each.

- (ii) Can you draw any conclusions from the study of the ratios ? **[12]**

(b) In recent times there is so much discussion about effective material procurement system in organisations. Enumerate 10 points for carrying out a Management Audit of material procurement function in a company. **[6]**

7. (a) Why Management audit is resorted to even though we have Financial Audit, Internal Audit and Cost Audit? State the salient features of Management audit. **[6+2]**

(b) "To-day's customer is the more demanding than the customer of yesterday"- In view of this how would you evaluate, as a Management Auditor, the performance of " Customer Services Department". **[10]**

8. Write a short note on any three of the following: **[6×3=18]**

- (a) Professional Behaviour
- (b) The major characteristics of ERP systems necessitating change in Audit Approach.
- (c) Concurrent Audit
- (d) Management Audit Programme (MAP)