

Paper 19 - COST AND MANAGEMENT AUDIT

Time allowed-3hrs

Full Marks: 100

Working Notes should form part of the answer.

—Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.

1. Answer the four Questions [15×4=60]

(a) (i) State the applicability and non-applicability of provision of Cost Accounting Record Rules, 2011. Whether this rules is also applicable to Foreign companies in India? **(10 Marks)**

(ii) State the circumstances under which the companies are required to submit Compliance report instead of Cost Audit Report? **(5 Marks)**

(b)(i) CW Ltd. has its own power plant, which has two users, Cutting Department and Welding Department. When the plans were prepared for the power plant, top management decided that its practical capacity should be 1,50,000 machine hours. Annual budgeted practical capacity fixed costs are ₹9,00,000 and budgeted variable costs are ₹4 per machine-hour. The following data are available:

	Cutting Department	Welding Department	Total
Actual Usage in 2002-03 (Machine hours)	60,000	40,000	1,00,000
Practical capacity for each department (Machine hours)	90,000	60,000	1,50,000

Required:

- (i)** Allocate the power plant's cost to the cutting and the welding department using a single rate method in which the budgeted rate is calculated using practical capacity and costs are allocated based on actual usage.
- (ii)** Allocate the power plant's-cost to the cutting and welding departments, using the dual – rate method in which fixed costs are allocated based on practical capacity and variable costs are allocated based on actual usage.
- (iii)** Allocate the power plant's cost to the cutting and welding departments using the dual-rate method in which the fixed-cost rate is calculated using practical capacity, but fixed costs are allocated to the cutting and welding department based on actual usage. Variable costs are allocated based on actual usage.
- (iv)** Comment on your results in requirements (i), (ii) and (iii). **[10]**

(b)(ii) What are the steps involved in creation of XBRL instance documents for the Cost Audit Report and Compliance Report? **(5 Marks)**

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- (c)** How would you deal the following items in the cost accounts of a manufacturing concern?
- (i) Research and Development Cost;
 - (ii) Packing Expenses;
 - (iii) Fringe Benefits;
 - (iv) Expenses on Removal and Re-erection of Machinery;
 - (v) Training Costs.
- (3×5=15 Marks)**

(d)(i) Whether finance costs incurred in connection with the acquisition of materials shall form part of material cost? **[5]**

(ii) Raj & Co. furnish the following expenditure incurred by them and want you to find the assessable value for the purpose of paying excise duty on captive consumption. Determine the cost of production in terms of rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 and as per CAS-4 (cost accounting standard) (i) Direct material cost per unit inclusive of excise duty at 10% - ₹ 1,320 (ii) Direct wages - ₹ 250 (iii) Other direct expenses - ₹ 100 (iv) Indirect materials - ₹ 75 (v) Factory Overheads - ₹ 200 (vi) Administrative overhead (25% relating to production capacity) ₹ 100 (vii) Selling and distribution expenses - ₹ 150 (viii) Quality Control - ₹ 25 (ix) Sale of scrap realized - ₹ 20 (x) Actual profit margin - 15%.

[5]

(iii) Basic pay ₹5,00,000; Lease rent paid for accommodation provided to an employee ₹2,00,000, amount recovered from employee ₹40,000, Employer's Contribution to P.F. ₹75,000, Employee's Contribution to P.F. ₹75,000; Reimbursement of Medical expenses ₹67,000, Hospitalisation expenses of employee's family member borne by the employer ₹19,000, Festival Bonus ₹20,000, Festival Advance ₹30,000. Compute the Employee cost. **[5]**

(e)(i) State the needs & elements of planning in a Cost Audit? **[5]**

(ii) Discuss the essential features of a cost accounting system. **[5]**

(iii) What are the objectives and functions of the Cost Audit and Assurance Standards? **[5]**

(2) Answer any two questions [10×2=20]

(a)(i) What are the scope of internal control of a company. **(4 Marks)**

(ii) What are the factors need to be considered while designing an internal control system?
(6 Marks)

(b)(i) Explain the main area of operation of an internal audit of a company? **(5 Marks)**

(ii) What are the documentations required for an internal audit as per Standard on Internal Audit-3? **(5 Marks)**

(c) Prepare the checklist of Purchasing Function. **(10 Marks)**

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(3) Answer any two questions [10×2=20]

(a) Poly Ltd has the following Balance Sheets as on 31 March 2014 and 31 March 2013:

Particulars	₹ in lakhs	
	31 March 2014	31 March 2013
Sources of Funds:		
Shareholder's Fund	2,677	1,772
Loan Funds	3,470	2,983
	6,147	4,755
Applications of Funds:		
Fixed Assets	3,566	3,000
Cash & Bank	389	370
Debtors	1,895	1,568
Stock	2,667	2,207
Other Current Assets	1,667	1,504
Less: Current Liabilities	(4,037)	(3,894)
	6,147	4,755

The Income Statement of the Poly Ltd for the year that ended is as follows:

	₹ in lakhs	
	31 March 2014	31 March 2013
Sales	24,265	14,982
Less: CGS	22,960	13,644
GP	1,305	1,338
Less: Selling, General & Administrative Expenses	1,035	652
Earnings before Interest and Tax (EBIT)	270	686
Less: Interest Expense	113	105
Profit before tax	157	581
Less: Tax	23	192
Profit after Tax	134	389

Required:

(i) Calculate for the year 2013-14:

- a. Inventory Turnover Ratio
- b. Return on Net worth
- c. ROI
- d. ROE
- e. Profitability ratio

(ii) Give a brief comment on the financial position of Petro Ltd.

(10 Marks)

(b) Explain the Characteristics of a good performance appraisal report?

(10 Marks)

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(c) A firm can produce three different products from the same raw material using the same production facilities. The requisite labour is available in plenty at ₹8 per hour for all products. The supply of raw material, which is imported at ₹8 per kg., is limited to 10,400 kgs. for the budget period. The variable overheads are ₹5.60 per hour. The fixed overheads are ₹50,000. The selling commission is 10% on sales.

(i) From the following information, you are required to suggest the most suitable sales mix, which will maximize the firm's profit. Also determine the profit that will be earned at that level:

Product	Market demand (units)	Selling price per unit (₹)	Labour hours required per unit	Raw material required per unit (kgs.)
P	8,000	30	1	0.7
Q	6,000	40	2	0.4
R	5,000	50	1.5	1.5

(ii) Assume, in above situation, if additional 4,500 kgs. of raw material is made available for production, should the firm go in for further production, if it will result in additional fixed overheads of ₹20,000 and 25 per cent increase in the rates per hour for labour and variable overheads. **(10 Marks)**