

Paper – 19: Cost and Management Audit

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Full Marks : 100

Time allowed: 3 hours

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

I. Answer the following:

1. (a) Fill in the blanks: [5×1=5]

- (i) Abnormal loss of material is charged to _____.
- (ii) Form A of XBRL is used for _____ Report of a company.
- (iii) Systematic examination, analysis and appraisal of management's overall performance is done in _____ audit.
- (iv) Any casual vacancy in the office of a cost auditor, shall be filled by the Board of Directors within _____ days of occurrence of such vacancy.
- (v) The Companies are required to maintain Cost Records if turnover exceeds _____ crores or more during immediately preceding Financial Year in respect of the products and services specified.

(b) State whether the following statements are true or false: [5×1=5]

- (i) In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers need not be added to the cost of utilities.
- (ii) XBRL is a language based on XML family of languages.
- (iii) Interest and finance charges are considered to be part of cost of production.
- (iv) Cost Audit is to be conducted only when the shareholders of the Company direct such an audit at the Annual General Meeting.
- (v) Maximum amount of penalty payable by the Cost Auditor for non-compliance with the provisions of Companies [Cost Audit Report] Rules 2014 is ₹ 5,000.

(c) Answer any five of the following in one or two sentences: [5×1=5]

- (i) How would you compute the cost of utilities as per CAS – 8 when the utilities are generated for the purpose of Inter Unit Transfer?
- (ii) Define Energy Audit
- (iii) Define Corporate Branding.
- (iv) Explain Sun Set Clause in one or two sentences.
- (v) What means 4-digit CETA Code as explained in the Companies [Cost Records and Audit] Rules, 2014?
- (vi) Whether the Companies (Cost Records and Audit) Rules, 2014 is applicable to a company which is classified as a micro enterprise or a small enterprise including as per the turnover criteria under section 7(9) of the Micro, Small and Medium Enterprises Development Act, 2006?

II. Answer any FIVE from Question No. 2 to 8. Each question carries 16 marks.

2. (a) What are the duties and liabilities of a Cost Auditor relating to reporting of frauds identified during audit? [6]

(b) "The Cost Audit report contains significant information which would help to access and improve operational efficiency of a concern". Discuss the statement with reference to the matters to be reported by a Cost Auditor in his report? [10]

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3. (a) As a part of management strategy SEASENA LTD. manufacturing soaps, purchased a popular soap brand "SUNFLOWER" from a smaller company. What will be treatment of such costs and the disclosure to be made in the Cost Statements as per relevant Cost Accounting Standard. [10]

(b) "Operational Auditing is an extension of Internal Audit in operational areas but with different approach". Examine this statement in the light of the objectives of operational audit. [6]

4. (a) 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. [6]

(b) PARTHAN CO. LTD. a single product manufacturing company, has following four operations undergone by a product under Cost Audit. The Processwise Input, Output, Direct Employee Costs and Direct Material Costs for the year ended March 31,2016 are given below: [10]

Process	Input Units	Output Units	Direct Employee Costs (Amt in ₹)	Direct Material Cost (Amt in ₹)
MP-1	312000	280800	8,42,400	11,23,200
MP-2	330000	297500	11,90,000	13,38,750
MP-3	414000	397500	19,87,500	16,89,375
MP-4	390000	361000	28,88,000	23,82,600

You are required to calculate:

a) Direct Employee Cost per unit of the product b) Direct Material Cost per unit of the product, -- under reference as required in (PART-B, PARA-2) of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules,2014.

5. The following is the abridged Balance Sheet of Apple Ltd., a single product manufacturing Company:

Year ended 31 st March,	2016	2015
Liabilities:	(Amount in ₹ lakhs)	
Share Capital	600	600
Reserves & Surplus:		
Debenture Redemption Reserve	50	60
Capital Subsidy from State Government	60	60
Revaluation Reserve	250	280
General Reserve	320	240
Profit & Loss A/c	96	64
Secured Loans:	550	590

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Unsecured Loans:	246	234
Total:	2172	2128
Assets:		
Gross Block	1450	1360
Accumulated Depreciation	(630)	(580)
Net Block	820	780
Capital Work-in-Progress	86	74
Investments:	30	30
Current Assets: Loans & Advances:		
Inventories	934	882
Sundry Debtors	364	390
Advances for Equipments	48	34
Other Loans & Advances	288	274
Cash and Bank Balances	42	38
Current Liabilities & Provisions:		
Sundry Creditors for Capital expenses	(34)	(42)
Sundry Creditors for Others	(370)	(394)
Provision for Taxes	(128)	(142)
Miscellaneous Expenditure	192	204
Total:	2172	2128

Additional information is available:

- Term Loans repayable in 12 months included under 'Secured Loans' are ₹ 192 lakh (previous year ₹168 lakh)
- Profit before Tax (PBT) for the year ended March 31st, 2016 is ₹ 160 lakh (previous year ₹ 174 lakh)

You are required to compute the following figures/ratios as Annexure to Cost Audit to Cost Audit Report under Companies (Cost Audit Report) Rules 2014, for the year ended March, 31, 2016:

- Capital Employed
- Net Worth
- Debt – Equity Ratio
- PBT to Capital Employed
- PBT to Net Worth

[16]

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6. (a) The Financial profit and loss account for the year 2015-16 of a company shows a net profit of ₹ 26,28,000. During the course of cost audit, it was noticed that
- i) The company was engaged in trading activity by purchasing goods at ₹4,00,000 and selling it for ₹5,00,000 after incurring an expenditure of ₹25,000
 - ii) Some old assets sold off at the end and fetching a profit of ₹ 80,000
 - iii) A major overhaul of machinery was carried out at a cost of ₹4,00,000. And the next such overhaul will be done only after four years.
 - iv) Interest was received amounting to ₹1,50,000 from outside investments.
 - v) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead was ₹ 1,85,000 in opening WIP and ₹ 3,15,000 in closing WIP.

Compute profit as per Cost Accounts and briefly explain the adjustment, if any, carried out. [6]

- (b) From the following figures extracted from the accounting records, you are required to compute the Valued Added by the company:

	₹ Lakhs
Net Sales excluding excise duty	21,000
Increase in stock of finished goods	250
Expenses:	
Raw materials consumed	2,600
Packing materials consumed	1,200
Stores and spares consumed	550
Power and fuel	4,600
Repairs and maintenance	200
Insurance	120
Direct Salaries and wages	480
Depreciation	885
Interest paid	1,398
Factory overheads:	
Salaries and wages	240
Others	250
Selling and distribution overheads:	
Salaries and wages	120
Additional sales tax	457
Others	1,700
Administration overheads:	
Salaries & wages	120
Others	80

[10]

7. (a) The following data were extracted from the departmental data of Cost centre where A and B were employed and performing the job X, Y and Z.

1	Basic wages	₹ 150	₹ 210
2	Dearness Allowances	80%	80%
3	Contribution to Provident fund on Basic wages	10%	10%
4	Contribution to ESI on Basic wages	4%	4%
5	Overtime	18 hours	Nil

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The normal working hours per month is 200 hours. Overtime is paid at double the rate of normal wages ad dearness allowance. Employers contribution to Provident fund and ESI are at equal the rate of employees contribution. The two workers are employed on jobs X, Y and Z in the following proportion:

Jobs	X	Z
Worker A	30%	40%
Worker B	20%	50%

Overtime was done by A for job Y.

From the above

- Calculate the earnings of A and B for a month to show labour rate per hour
- Allocate the labour cost to each job X, Y and Z. **[10]**

(b) A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules 2014 has exempted companies operating in special economic zones from cost audit. What would be applicability of the Companies (Cost Records and Audit) Rules 2014 on such a company in respect of maintenance of cost accounting records and cost audit? **[6]**

8.(a) Analyze the role of Internal Auditor in the internal control system of the organization. **[6]**

(b) The Companies (Cost Records and Audit) Rules, 2014 requires submission of a Single Cost Audit Report at the company level. What is the procedure of certifying and submission of Cost Audit Report of a company where more than one Cost Auditor is appointed? **[5]**

(c) Explain the features of a good internal control system. **[5]**