Paper – 19 - Cost and Management Audit

Paper – 19 - Cost and Management Audit

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.

Section A [20 marks]

1. Answer the following questions:

(a) Fill in the blanks: [marks 5*1=5]

- **(i) Management audit requires ---------------approach.**
- **(ii) A corporate development audit is an -----------objective study of organization's capabilities.**
- **(iii) Corporate objectives represent the ------------- for organization as laid down by itself.**
- **(iv) CAS 11 deals with --------------**
- **(v) Efficiency Audit ensures ------------------return on capital employed.**

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

- **(i) Normal capacity is maximum production capacity of a plant.**
- **(ii) CAS 20 deals with Royalty and Technical Knowhow fee.**
- **(iii) Under Part D of the Annexure to the Cost Audit Report, information regarding Profit Reconciliation (for company as a whole) to be furnished for Current year and previous 2 years.**
- **(iv) Cost Auditor's observation and suggestions are given in CRA-3.**
- **(v) Cost Auditing Standard 102 deals with Planning an Audit of Cost Statements**

(c) Answer any five of the following in one or two sentences: [marks 5*2=10]

- **(i) What constitutes the cost records under Rule 2(e)?**
- **(ii) Define Cost Auditor.**
- **(iii) How would you treat demurrage charges as per CAS 15?**
- **(iv) How would you treat Employee share options under Generally Accepted Cost Accounting Principles ?**
- **(v) What is XBRL?**
- **(vi) How will you treat an item of Direct Expenses that doesnot meet the test of materiality as per CAS 10?**

Answer: 1

(a) (i) inter-disciplinary

(ii) Independent

(iii) Charter

(iv) Administrative overheads.

(v) Optimum

(b) (i) False.

(ii) True.

(iii) False.

(iv) True.

(v) False.

(c) (i) Cost records " means books of account and other records relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these rules.

The Act here refers to The Companies Act 2013. Rule refer to Cost (Records and Audit) Rule, 2014.

(ii) Rule 2(c) of the Cost Records and Audit) Rules , 2014 means a Cost Accountant in practice , as defined in clause (b) , who is appointed by the Board.

(iii) As per CAS 15 relating to Selling and Distribution overheads, any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the Selling and Distribution overhead.

(iv) Cost of employee share options is treated as part of employee cost provided the same is not a notional cost and involves an actual cash outlay.

(v) XBRL (extensible Business Reporting Language) is a language based on XML (Extensible Mark-up Language) family of languages. It is an open standards-based reporting system that is built to accommodate the electronic preparation and exchange of business reports around the world using internet as a medium. It has been defined specifically to meet the requirements of business and financial information.

(vi) If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.

Section B[80 marks]

Answer any 5 questions from Question number 2 to 8.

Each question carries 16 marks.

2 (a) AMRIT LTD. a Sugar and Industrial Alcohol manufacturing company incorporated in May 2015 is having turnover ₹75 crores from all its activities during F.Y.2015-16. Discuss about the applicability of Cost Audit to the company? [8 Marks]

(b) Answer the following questions with respect to Companies(Cost Records and Audit) Rules, 2014.

(i) Whether Value addition and distribution of earnings [part D, para 3] is to be computed based on Cost record data or audited financial data?

(ii) Whether Financial position and ratio analysis [part D, para 4] is to be computed based on Cost record data or audited financial data?

(iii) A Company is engaged in both regulated and Non-regulated sectors and all its products are not covered under the rules. How to determine applicability of cost audit for the products covered under the regulated and Non-regulated sectors since different threshold limits have been prescribed under rule 4? [1+1+6]

Answer: 2

2(a) Rule 4 of the Companies (Cost Records and Audit) Rules,2014 states that cost audit would be applicable for products under:

i. Table A of Rule(3) if the overall turnover of the company is at least ₹50 crore during immediately preceding financial year and
ii. Table B of Rule(3) if the overall turnover of the company is ₹100 crore during immediately preceding Financial year.

Sugar and industrial alcohol (CETA 1701,1703 ,2207) fall in the Regulated Sector (Table -A) of Rule(3) and is required to maintain Cost Records and get the same audited by the Cost Auditor. Rule 3 states that a company engaged in the production of the goods or providing of services as prescribed having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account.

Since the threshold limit for applicability of maintenance of cost accounting records is met in year-0, the cost records are required to be maintained from Year-1. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent year also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter. The company has to maintain cost records for the year commencing from 01.04.2016.

2(b)

(i) Value Addition statement is to be computed based on audited financial accounts.
(ii) Financial Position and Ratio Analysis is to be computed based on audited financial accounts. This reporting Para has been aligned with the nomenclature of Schedule III of the Companies Act, 2013.
(iii) Rule 4 states that cost audit would be applicable for products under:
(a) Table A if the overall turnover of the company is at least ₹ 50 crore and
(b) Table B if the overall turnover of the company is ₹ 100 crore.

Hence, the coverage of cost audit for a company where all its products are covered under Table A or Table B or a combination of the two would be guided by these threshold limits.
In case of a multi-product company where all its products are not covered under Table A or Table B or a combination of both, then the following would apply:

(a) if the overall turnover of the company is more than ₹ 50 crore but less than ₹100 crore, then only products covered under Table-A will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than ₹ 25 crore.
(b) If the overall turnover of the company is more than ₹100 crore, then:
    (i) products under both Table A and Table B will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than ₹ 35 crore (ii) only products of table a will be covered if the sum total of all the products of the company covered under Table A and Table B is more than ₹ 25 crore but less than ₹ 35 crore.
    Explanation: Rule 4 has defined threshold limits for Table A and Table B separately but the aggregate turnover of the individual product or products or service or services has been defined to be all products for which cost records are required to be maintained under rule 3.

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? [8 Marks]

3 (b) The financial profit and loss account for the year 2016-17 of a company shows a net profit of ₹52,56,000. During the course of cost audit, it was noticed that:

I. The ₹10,00,000 after incurring and expenditure of ₹50,000.

II. Some old assets sold off at the end-end fetching a profit of ₹160,000

III. A major overhaul of machinery was carried out at a cost of ₹8,00,000. And the next such overhaul will be done only after four years.

IV. Interest was received amounting to ₹3,00,000 from outside investments.

V. Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead was ₹3,70,000 in opening WIP and ₹6,30,000 in closing WIP.

Work out the profit as per Cost Accounts and briefly explain the adjustment, if any, carried out. [marks 8]

Answer: 3

3 (a) The expenses paid or incurred for purchase of a brand is lump-sum in nature and purchased for the increase in revenue income over a long period of time. As per Cost Accounting Standard 10, expenses which are in the nature of 'one - time' payment, shall be amortized on the basis of the estimated output or benefit to be derived from such direct expenses. The expenses for which the benefit is ensued in the future period shall be equated with the estimated production/service volumes for the effective period and based on volume achieved during the Cost Accounting period. Accordingly, the charge for amortization shall be determined. In the given situation, the company is likely to be benefitted from the brand image of the product and the costs so amortized be treated as Selling Expenses over the estimated life of the brand image.

As per CAS-10, the cost statements on direct expenses shall normally disclose the following:

1. The basis of distribution of Direct Expenses to the cost objects/cost units.
2. Quantity and rates of items of Direct Expenses, as applicable.
3. Where Direct Expenses are accounted at standard cost, the price and usage variances.
4. Direct expenses paid/payable to related parties.
5. Direct Expenses incurred in foreign exchange.
6. Any subsidy/Grant/incentive/credit/recoveries and any such payment be reduced from Direct Expenses.

Disclosure shall be made only where expenses are material, significant and quantifiable and be made in the body of the Cost Statement or as a foot note or as a separate schedule.

3 (b)

Reconciliation Statement

Particulars	₹	₹
Profit as per Financial Profit & Loss Account		5256000
Less: Trading profit not included in cost accounts 75,000	150000	
Less: Profit on sale of old assets	160000	
Less: Interest received on outside investment	300000	610000
Add: Proportionate Charge i.e., three-fourth for overhaul of machinery not provided in cost accounts	600000	
Add: Difference in the valuation of work-in-progress	260000	860000
Profit as per Cost Accounts		**5506000**

4 (a) XYZ Ltd. engaged in manufacturing of engineering goods is consistently recording higher sales turnover, but declining net profits since the last 5 years. As an management consultant appointed to find out the reasons for the same, what are the points you would verify? [marks 8]

(b) What do you understand by 'energy audit'? Briefly state the functions of energy auditor. [marks 8]

Answer: 4

(a) As per the facts that there has been consistently high turnover but declining net profits is an anomalous situation. It may be attributed to one or more following reasons requiring further investigation:

(i) Unfavourable Salesmix: Where the company sells different engineering products with different product margins, the product with the maximum PV ratio/margin should have a higher share in the total sales. If due to revision of sales mix, more quantities of unprofitable products are sold, profits will be reduced in spite of an increase in sales.

(ii) Negative Impact of Financial Leverage: Where the company does not have sufficient own funds (equity) but has a higher debt-equity ratio, the interest commitments will be higher. As the volume of its operation increases, higher debt and interest charges would result in lower profits.

(iii) Other Items Included in Sales: The figure of sales as per Profit and Loss Account may include incidental revenues, e.g., freight, excise duty, sales-tax, etc. where the amount of excise duty goes up considerably the total sales may show an increase which is not represented by a real increase in sales quantity/value.

(iv) High Administrative and Selling Expenses: Administrative and selling costs are generally period costs which are fixed in nature. Their increase is generally not proportional to sale increase. However, a reduction in profit could also be due to increase in administrative overheads and sales overheads at a rate higher than the rate of increase in sales.

(v) Cost-Price Relationship: If the increases in cost of raw materials and labour has not been compensated by a corresponding increase in the sales price this would also result in higher sales and declining profits. Inspite of same sales quantity, for the increasing cost of raw materials and other services, per unit values of the product has been increased which is however unmatched by the increase in cost.

(vi) Competitive Price: Where sales have been made at cut-throat prices in order to eliminate competition from the market, the profits would be in the declining trend in the short-run.

(vii) Additions to Fixed Assets: Where there are heavy additions to fixed assets and consequent depreciation charges in the initial years of additions, there may be reduction in profits in spite of increased sales.

(b) Energy Audit is the key to a systematic approach for decision-making in the area of energy management. It attempts to balance the total energy inputs with its use, and serves to identify all the energy streams in a facility. It quantifies energy usage according to its discrete functions.

Industrial energy audit is an effective tool in defining and pursuing comprehensive energy management programme.

As per the Energy Conservation Act, 2001, Energy Audit is defined as "the verification, monitoring and analysis of use of energy including submission of technical report containing recommendations for improving energy efficiency with cost benefit analysis and an action plan to reduce energy consumption".

In that context, energy management involves the basis approaches reducing avoidable losses, improving the effectiveness of energy use, and increasing energy use efficiency. The function of an energy auditor could be compared with that of a financial auditor. The energy auditor is normally expected to give recommendations on efficiency improvements leading to monetary benefits and also advise on energy management issues. Generally, energy auditor for the industry is an external party. The following are some of the key functions of the energy auditor:

(i) Quantification of energy costs and quantities
(ii) To correlate trends of production or activity to energy cost.
(iii) To devise energy database formats to depict to correct picture – By product, department or consumer.

While performing the aforesaid key functions, the energy auditor is required to carry out the following activities:

(i) To analyse the historical energy consumption and cost data.
(ii) To conduct preliminary energy audit with the objectives to identify:
  (a) major energy consuming equipment and process;
  (b) obvious inefficiencies and energy wastes; and
  (c) priority areas for further detailed investigation.
(iii) To conduct detailed technical and economic analysis of energy efficiency measures involving large efficiency measures involving large capital investment or long payback periods.

5 (a) As an internal auditor of DEF Ltd. the Managing Director has asked you to enquire into the causes of abnormal wastage of raw materials during the month of September, 2017.

The wastage percentages are as follows:

June, 2017	**1.3%**
July, 2017	**1.1%**
August, 2017	**1.4%**
September, 2017	**3.8%**

How will you proceed to carry out the Assignment? [10 marks]

5 (b) The following details of the process-wise wastages on inputs are taken from the Cost Accounting Records of MANAVI COTTON MILLS LTD. a yarn manufacturing company, for the year ended March 31, 2017:

Process	% of Wastage on Input
Mixing and Blow Room	9.20
Carding	6.95
Drawing	1.25
Roving (Simplex)	1.15
Ring frame (Spinning)	7.00
Winding	1.75

Required:

Calculate the process-wise "WASTE MULTIPLIER" factors for the year ended March 31, 2017. [marks 6]

Answer: 5

(a) The rate of wastage in September, 2017 has risen sharply as compared to previous months. Under the circumstances, before setting for detailed investigation, the internal auditor need to understand the manufacturing environment right from the stage of purchase of materials, the movement of stock flow through the production process while its becomes finished goods. To locate the reasons for the abnormal wastage, the internal auditor should first of all assess the general requirements as under:

(i) Procure a list of raw materials, showing the names and detailed characteristics of each raw material.

(ii) Obtain the standard consumption figures, and ascertain the basis according to which normal wastage figures have been worked out. Examine the break up of a normal wastage into that in process, storage and handling stages. Also obtain control reports, if any, in respect of manufacturing costs with reference to predetermined standards.

(iii) Examine the various records maintained for recording separately the various lots purchased and identification of each lot with actual material consumption and for ascertaining actual wastage figures therein.

(iv) Obtain reports of Preventive Maintenance Programme of machinery to ensure that the quality of goods manufacture is not of sub-standard nature or leads to high scrap work.

(v) Assess whether personnel employed are properly trained and working efficiently.

(vi) See whether quality control techniques have been consistent or have undergone any change.

(vii) Examine inventory plans and procedures in report of transportation storage efficiency, deterioration, pilferage and whether the same are audited regularly.

(viii) Examine whether the basis adopted for calculating wastage for September is the same as was adopted for the other three months.

(ix) Obtain a statement showing break up of wastage figures in storage, handling and process for the four months under reference and compare the results of the analysis for each of the four months.

Some specific reasons for abnormal wastage in process specific may be considered by the auditor are as under:

(A) Examine laboratory reports and inspection reports to find out if raw materials purchased were of a poor quality or were of sub-standard quality. This will be most useful if it is possible to identify the wastage out of each lot that has been purchased.

(B) Machine breakdown, power failure, etc. may also result into loss of materials in process. Check the machine utilisation statements.

(C) A high rate of rejections in the finished lots may also be responsible for abnormal wastage; therefore, examine the inspectors' reports in respect of inspection carried out on the completion of each stage of work or process.

(D) It is possible that the wastage may have occurred because the particular lot out of which issues were made in September, 2011 was lying in the store for a long time, leading to deterioration in quality or because of a change in the weather which may have led to the deterioration. Compare the wastage figures of September, 2010 with those of September, 2011.

(E) Abnormal wastage in storage and handling may arise due to the following reasons:
   (i) Write offs on account of reconciliation of physical and book stocks: In case of periodical physical stock taking, such write offs will be reflected only in the month such reconciliation takes place.
   (ii) Accidental, theft or fire losses in storage: The auditor should examine the possibility of these for the purpose.
(F) Examine whether any new production line was taken up during the month in respect of which standard input-output ratio is yet to be set-up.

5(b)

MANAVI COTTON MILLS LTD.

Calculation of "Waste Multiplier" factors for the year ended March 31, 2017

Process	% of wastage on input	Net output for 100 units of input	Waste multiplier
Total		100	1.3270
Maxim and blow room	9.20	(100 - 9.20) = 90.80	1.2049
Carding	6.95	90.80 - (90.80 × 0.0695) = 84.49	1.1211
Drawing	1.25	84.49-(84.49 × 0.0125)= 83.43	1.1071
Roving (Simplex)	1.15	83.43-(83.43 × 0.0115)= 82.47	1.0944
Ring frame (spinning)	7.00	82.47-(82.47 × 0.07) = 76.70	1.0178
Winding	1.75	76.70-(76.70 ×0.0175) = 75.36	1.0000

Working Notes:

(1) Mixing and Blow Room: 100 - 9.20 = 90.80
Carding : 90.80 - (90.80 × 0.0695) = 90.80 - 6.31 = 84.49
Drawing: 84.49- (84.49 × 0.0125) = 84.49 - 1.056 = 83.43 etc.

(2) Waste Multiplier:
(1) 100/75.36 = 1.3270 (2) 90.80/75.36 = 1.2049
(3) 84.49/75.36 = 1.1211 (4) 83.43/75.36 = 1.1071
(5) 82.47/75.36 = 1.0944 (6) 76.70/75.36 = 1.0178

6. PHIMPEX LTD. in the business of Real Estate and Consumer Goods shows the following financial position for the year ending March31, 2017:

(Amount in ₹ crore)

	Year ended 31st March	
	2017	**2016**
Liabilities		
Share Capital	**33**	**33**
Securities Premium Account	**931**	**928**
General Reserve	**57**	**44**
Capital Redemption Reserve	**42**	**40**
Profit & Loss Account	**595**	**390**
Long Term Borrowings	**1013**	**670**
Deferred Tax Liability	**25**	**39**
Short Term Borrowing	**782**	**676**
Trade Payable	**715**	**747**
Miscl. Provisions	**77**	**73**
Total:	**4270**	**3640**

Assets:		
Fixed Assets (Tangible)	647	614
Capital WIP	667	383
Non-Current Investments	2378	2048
Long Term Loans	53	66
Inventories	167	232
Trade Receivables	104	94
Cash and Bank Balance	107	69
Other Current Assets	25	30
Advance for Equipment	122	104
Total:	4270	3640

Profit before tax for the year 2016-17 was ₹326 crores (Previous year ₹397 Crores)
You are required to compute the following figures/ratios as stipulated in PART-D, PART-4 to Annexure of cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended 31st March, 2017:

- **i. Capital Employed**
- **ii. Net Worth**
- **iii. Debt Equity Ratio**
- **iv. PBT to Capital Employed**
- **v. PBT to NET Worth**
- **vi. Current Assets to Current Liabilities** **(5+3+2+2+2+2)=16**

Answer 6:

PHIMPEX LTD.

(Amount in ₹ crore)

Year ended March 31			2016	2017	2017
(i) Capital Employed:					
Fixed assets (Tangible)			614	647	
Non-current investments			2048	2378	
Particulars	Previous Year2016	Current Year 2017	2662	3025	
Current Assets: (A)					
Inventories	232	167			
Trade Receivables	94	104			
Cash and Bank Balance	69	107			
Other Current Assets	30	25			
(A)	425	403			
Current Liabilities:					
Short term borrowings	676	782			
Trade payables	747	715			
Misc. Provision	73	77			
(B)	1496	1574	(1071)	(1171)	
Working Capital (A-B)			1591	1854	
CAPITAL EMPLOYED Average capital employed for the year ended March 31,2017			(1591+1854)÷2		1722.5

(ii) Net Worth: (For the year ended Mar 31,2017 Share capital Securities premium a/c General reserve Capital redemption reserve Profit and loss account		 33 931 57 42 595	 1658
(iii) Debt (For the year ended March 31,2017) Long Term Borrowings Deferred Tax Liabilities Debt Equity Ratio: (1038/1658) = 62.60% = 62.6:100 or 0.63:1	 (1038 ÷1658) =62.60%	 1013 25 Or	 1038 62.6:100 0.63:1
Profit before tax (PBT) for the year ended March 31, 2017			326
(iv) PBT to Capital Employed:	(326 ÷1722.5)×100		18.93%
(v) PBT to Net Worth	(326÷1658)×100		19.66%
(vi) Current Assets to Current Liabilities: for 2017 (CA/CL) = (403/1574)		 Or	0.256 0.26:1

7 (a) SAFA organised a three-day International Conference of Accountants in Bangalore. You are asked to conduct internal audit the accounts of the conference. Draft the internal audit programme for audit of receipt of participation fees from delegates to the conference. [marks 9]

7 (b) As per Companies Act 2013 what comprises of "books of account"? [marks 7]

Answer: 7

7 (a) Audit of Receipts of Participation Fees

The organization of three-day International Conference of Accountants in Bangalore by SAFA is a one-time event. Normally, in view of mega-size of the event, a special cell is made in the organization to handle the entire event. Since few people would be handling the event, the internal controls may not be that strong and, thus, more emphasis is required to be given on substantive procedure. Audit of receipt of participation fees should be under the following areas:

(I) Internal Control System
- (i) Examine the organization structure of special cell created for the International Conference, if any, and division of responsibilities amongst persons and control/custody over receipt books.
- (ii) Verify the internal control system for restricting the participation of unregistered delegates.

(II) Rate of Participation Fees
- (i) Verify with reference to resolution passed by the Organizing Committee/SAFA.
- (ii) Also verify the rate from the literature/registration form circulated for promotion of conference.

(III) Receipts of Participation Fees
- (i) Verify counter foil of the receipts issued for individual registration.
- (ii) Ensure that receipts are issued for all the registration received in cash.
- (iii) Trace the receipts in Bank Statement or Cash Book – as the case may be.
- (iv) Verify Bank Reconciliation Statement and list out dishonoured cheques.

(v) Verify subsequent recovery in respect of dishonoured cheques.

(IV) Overall Checking

(i) Verify the total receipts of participation fees shown in the financial statements with reference to total number of receipts issued to participants.

(ii) Cross check the total number of delegates with reference to the following:

(a) Kits distributed to participants.

(b) Bill of caterer for providing meals during conference.

(c) Capacity of the Hall.

(d) Participation Certificate if any issued.

(V) Foreign Delegates: In case of foreign delegates – if registration fees are higher – ensure that they are registered at higher fees.

(VI) Special Issues :

(i) Take out list of absentees and in case of nil absentees, probe the issue further.

(ii) If certain participants are exempted from payment of fees – obtain the list along with proper authorization in this regard.

7 (b) Section 2(13) of Companies Act, 2013, defines that: "Books of account" includes records maintained in respect of—

i. all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;

ii. all sales and purchases of goods and services by the company;

iii. the assets and liabilities of the company; and

iv. the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

8 (a) Purchase of Materials ₹6,00,000 (inclusive of Trade Discount ₹6,000); Fee on Board ₹24,000; Import Duty paid ₹30,000; Freight inward ₹ 40,000; Insurance paid for import by sea ₹20,000; Rebates allowed ₹8,000; Cash discount ₹6,000; CENVAT Credit refundable ₹14,000; Subsidy received from the Government for importation of these materials ₹40,000. Compute the landed cost of material (i.e. value of receipt of material).

[marks 4]

(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 31,2017 are given below:

Process	Input Unit	Output Unit	Direct employee cost of the process (₹)	Direct Material cost of the process (₹)
MP-I	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	23,82600

You are required to calculate:

i. Direct Employee Cost per unit of the product,

ii. 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. [2+2+2+2=8]

(c) What disclosures are required to be made in Cost Statement as per CAS-19 as regard to Joint COSTS? [4 marks]

Answer: 8

8(a) Computation of Material Cost Sheet

	Particulars	**Amount (₹)**
	Purchase price of Material	6,00,000
Add:	Fee on Board	24,000
Add:	Import Duties of purchasing the material	30,000
Add:	Freight Inward during the procurement of material	40,000
Add:	Insurance paid	20,000
	Total	**7,14,000**
Less:	Trade Discount	6,000
Less:	Rebates	8,000
Less:	CENVAT Credit refundable	14,000
Less:	Subsidy received from the Government for importation of materials	40,000
	Value of Receipt of Material	**6,46,000**

7(b) Total employee cost per unit and total material cost per unit of the product under Audit mist be an aggregation of processwise employee cost and material costs after taking into account the good units occurring in each process.

Process	Input(unit)	Output (unit)	Factor
Mp-1	312000	280800	312000÷280800=1.1111
MP-2	330000	297500	330000÷297500=1.1092
MP-3	414000	397500	414000÷397500=1.0415
MP-4	390000	361000	390000÷361000=1.0803

A) Processwise Employee costs per unit of output (Product) are:	B) Processwise material cost per unit of output (product) are:
MP- 1 = 842400 ÷ 280800= ₹3	1123200 ÷ 280800 = ₹4.00
MP- 2 = 1190000 ÷ 297500= ₹4	1338750 ÷ 297500 = ₹4.50
MP- 3 = 1987500 ÷ 397500= ₹5	1689375 ÷ 397500 = ₹4.25
MP- 4 = 2888000 ÷ 361000= ₹₹8	2382600 ÷ 361000 = ₹6.60

(i) Aggregating all above (A) employee cost to the finished product form process MP-4 will be:

Process MP-1	= ₹3.00	
Process MP-2	= ₹3 ×1.1092+4	= ₹7.3276
Process MP-3	= ₹7.3276×1.0415+5	= ₹12.6317
Process MP-4	= ₹12.6317×1.0803+8	= ₹21.6460

Direct employees cost per unit of finished product (output) in ₹21.65

(ii) Aggregating all above (B), material costs to the finished product from process MP-4 will be:

Process MP-1	= ₹4.0000	
Process MP-2	= ₹4.00×1.1092 + 4.50	=₹8.9368
Process MP-3	= ₹8.9368×1.0415 +4 .25	= ₹13.5577
Process MP-4	= ₹13.5577×1.0803 + 6.60	= ₹21.2464

Hence, Direct material cost per unit of finished product (output) is ₹21.25

(c) The following disclosures are required to be made in the cost statement as per CAS-19 as regard to Joint Costs:

(i) The cost statement shall disclose the basis of allocation of Joint costs to individual products and the value assigned to the by-products.

(ii) The disclosure should be made only where material, significant and quantifiable.

(iii) Disclosures shall be made in the body of cost statements or as a foot note or as a separate schedule.

(iv) Any change in the cost accounting principles and methods applied for the measurement and assignment of the Joint costs and the value assigned to by-product during the period covered by the cost statement which has a material effect on the joint/by-products shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.