

**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.

Section A [20 marks]

1. Answer the following questions:

- (a) Fill in the blanks: [marks 5\*1=5]
- (i) According to CAS 8 on Utilities the cost of maintaining stand-by utilities is ----- cost.
  - (ii) Equalized transportation cost means ----- transportation cost incurred during a specified period.
  - (iii) Costing Taxonomy is best defined as a -----.
  - (iv) Variances due to abnormal reasons ----- form part of cost as per GACAP.
  - (v) ----- is evaluation of every resources declared in the industry.
- (b) State whether the following statements are true or false: [marks 5\*1=5]
- (i) Cost Audit is synonymous with efficiency audit.
  - (ii) Donations given to Charitable Institutions should not form part of Cost Accounts.
  - (iii) Market research cost is not a part of Research and Development Cost.
  - (iv) CAS 9 deals with indirect material cost.
  - (v) Part B of the Annexure to Cost Audit Report relates to service sector.
- (c) Answer any five of the following in one or two sentences: [marks 5\*2=10]
- (i) How is cost computed if service is provided by contractors as per CAS 13?
  - (ii) What do you understand by Audit Report?
  - (iii) What is the objective of Cost Auditing Standard 101?
  - (iv) Which Companies are required to maintain Cost Records?
  - (v) What is the benefit of having cost related data in XBRL format?
  - (vi) What you understand by "True and Fair Cost of Production."?

Answer: 1

- (a) (i) Committed.  
(ii) Average  
(iii) Dictionary.  
(iv) Will not.  
(v) Productivity Analysis.

- (b) (i) True.  
(ii) True  
(iii) True.  
(iv) False.  
(v) False.
- (c) (i) Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.  
Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.
- (ii) An audit report is a formal document where internal audit summarizes its work on an audit and reports its findings and recommendations based on that work.
- (iii) Audit report will be an indicator of the usefulness of the internal audit functioning in the organization.
- (iv) The objective of this Cost Auditing Standard 101 is to guide the members in planning for the audit of cost statements so that it is performed in an efficient and effective manner. Audit planning shall also include establishing the overall audit strategy and audit plan for the conduct of the audit.
- (v) Any domestic or foreign company listed in Table of Rule 3, falling under regulated or non-regulated sectors and engaged in production of goods or provision of services with overall turnover from all its products or services is equal or more than ₹35 crores in preceding financial year is required to maintain Cost Records.
- (vi) Government and Regulators require cost data of different sectors for policy making. The availability of cost data [without compromising on the confidentiality] in XBRL format enables informed decision making and for sectoral studies. With full adoption of XBRL, companies would be able to integrate its financial and cost data across its operational areas and exercise better control on its activities.
- (vii) The concept of "True and Fair Cost of Production" is used in the context of cost audit wherein the cost auditor has to state whether in his opinion the company's cost accounting records have been kept so as to give a true and fair view of the cost of production, processing and marketing of the product.

**Section B[ 80 marks]**

**Answer any 5 questions from Question number 2 to 8.**

**Each question carries 16 marks.**

- 2 (a) The Cost Audit report contains significant information which would help to assess 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 [8 Marks]**

- 2 (b) Answer the following questions with respect to Companies(Cost Records and Audit) Rules, 2014.
- (i) The Rules state that cost records are to be maintained in Form CRA-1. However, CRA-1 does not prescribe any format but only provides principles to be followed for different cost elements. What are the role and status of Cost accounting Standards/GACAP and its applicability vis-à-vis CRA-1?
  - (ii) Whether maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is applicable to products which are for 100% captive consumption?
  - (iii) (iii) Whether separate Form CRA-2 is required to be filed by a company having two or more different types of products covered under cost audit? [3+3+2]

**Answer: 2 (a)**

- (I) The Cost Auditor has to report whether the Cost Accounting System followed is adequate for determination of the fair cost of production.
- (II) He has to report on the financial performance of the company as well as of the product under cost audit, along with various ratios and offer comments on the ratios.
- (III) He has to indicate the percentage of production in relation to the installed capacity expressed in appropriate units of measurement. He has also to state reasons for the shortfall in production bringing out clearly the extent to which they are controllable both in short term as well as long term.
- (IV) He has to give observations as regards variations, if any, in the rate of major raw materials, power and fuel etc. in terms of rate per unit as compared to previous year, if any.
- (V) He has to give details of wages and salaries including direct labour cost per unit of output and as compared to the previous year.
- (VI) He has to indicate the amount of overheads along with reasons for any significant variations in expenditure incurred against the items of factory, administration, selling and distribution overheads as compared with previous two years.
- (VII) The cost auditor has also to mention any abnormal feature affecting the production indicating their effect on the unit cost of production.

Again the cost auditor may offer suggestions as regard the following matters for improvements in performance of the company under audit with reference to:-

- (a) Rectification of general imbalance in production facilities
- (b) Fuller utilization of installed capacity
- (c) Concentration on areas offering scope for cost reduction, increased productivity and key limiting factors causing production bottlenecks; and
- (d) Suggesting improved inventory policies

As far as possible data for the earlier years has to be furnished. The cost auditor could also interpret the data from the trend for the earlier years, and offer suggestions.

The opinions shall be bases on verified data, reference to which shall be made and shall be included after the company has been given an opportunity to comment on items.

- 2 (b) (i) The principles of maintenance of cost accounting records have been notified in the Rules in CRA-1. The principles are in sync with the cost accounting standards. The Rules are principle based and no formats have been prescribed for maintenance of cost accounting records. No separate format based records maintenance has been prescribed even for the Regulated industry and the prescription has left it open for

industry to maintain cost accounting records according to its size and nature of business so long as it determines a true and fair view of the cost of production, cost of sales and margin of the products/services. The cost audit report is required to be in conformity with the "cost auditing standards" as referred to in section 148 of the Companies Act, 2013.

It is also to be noted that the council of the Institute of Cost Accountants of India has made it mandatory for Cost Accountants in practice to follow and conform to the Cost Accounting Standards issued by it and it is incumbent on the cost auditors to report any deviations from Cost Accounting Standards.

- (ii) The Companies (Cost Records and Audit) Rules, 2014 has specified different products and services for which maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is mandatory. In case a product is manufactured and 100% captively consumed for production of some other product which is also covered under these Rules and is subject to cost audit, then the cost of such captively consumed product would form part of the final product which is also under cost audit and as such a separate cost audit report for the captively consumed product will not be necessary. However, if the product is partly for captive consumption and partly sold, or if the product is 100% captively consumed for production of some other product which is not covered under these Rules, then cost audit would be applicable for such captively consumed product(s).
- (iii) CRA-2 Form (intimation for appointment of cost auditor to Central Government) has replaced the earlier Form 23C (application seeking approval for appointment of Cost Auditor). A single Form CRA-2 is required to be filed providing details of the sectors/industries covered under cost audit and details of cost auditor. For Companies appointing multiple cost auditors, only one single Form CRA-2 is required to be filed. Provision has been made in the Form to accommodate details of multiple Cost Auditors.

3 (a) Following are data available from a company which has both domestic and export sales. The company is subject to cost audit. Prepare a statement of export profitability.

Production	10,000 units	
Sales Domestic	9,000 units at	₹22/unit
Sales Export	1,000 units at	₹17/unit
Raw materials consumed		₹90,000
Imported component used only for exported quality		₹3,000
Direct Labour		₹10,000
Factory overhead		₹15,000
Administration overhead		₹5,000
Export Packing		₹3,000
Freight and Packing for Domestic Sales		₹4,500
Handling at Port		₹500
Opening WIP		₹10,000
Closing WIP		₹5,000

For export an imported component is to be used at a cost of ₹3 per unit. The indigenously produced component that is used for domestic sales and included in raw material consumption is ₹4 per unit. Duty drawback on the 1000 units export is ₹1,500.

[marks 8]

3 (b) (i) Compute Employee Cost as per CAS 7 on basis of information given:

Particulars	Amount (₹)
Gross pay(This includes cost of idle time hours paid to employees)	1020000

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amounting ₹ 25000)	
Employer's contribution to Provident Fund(including ₹ 2000 as penalty for violation of PF rules)	100000
Employee's Contribution to PF	75000
Festival bonus	50000
Unamortised amount of Employee cost related to discontinued operation	90000
Employee training cost	2,00,000
Festival advance	35000
Depreciation on rent free accommodation given to employees	100000
Maintenance charges of the said accommodation	90000
Municipal Tax on the said accommodation	3000

- (ii) How would you treat future remediation or disposal costs under CAS-14 relating to Pollution Control Costs? [6+2]

Answer: 3 (a)

### Cost of production common to domestic sales and exports

Total production	10,000 units
Raw materials consumed	₹90,000
Less : Component used only for domestic sales 9000 x ₹4	<u>₹36,000</u>
Net raw material consumption	₹54,000
Direct labour	₹10,000
Factory overhead	₹15,000
Administration overhead	₹5,000
Opening WIP	₹10,000
Closing WIP	₹ (5,000)
	<u>₹89,000</u>
Common cost per unit	₹8.9
Production for export sales	1,000 units
Common cost as above 1000 x ₹8.90	8,900
Cost of imported component used exclusively for exports 1000 x ₹3	₹3,000
Exporting packing	₹3,000
Handling at port	₹500
Cost of exports	<u>₹15,400</u>
Export sales realisation 1000 x ₹ 17	<u>₹17,000</u>
Export profit (Sales less cost)	₹1,600
Export benefit duty drawback	₹1,500
Adjusted export profitability	<u>₹3,100</u>

3 (b) (i)

	Particulars	Amount (₹)
	Gross Pay (net of idle time)= ₹ (10,20,000- 25,000)	9,95,000
<b>Add</b>	Cost of rent free accommodation (Depreciation + Municipal Tax + Maintenance Charges)= ₹(1,00,000 + 3,000 + 90,000)	1,93,000
<b>Add</b>	Employer's contribution to PF = ₹(1,00,000 – 2,000)	98,000
<b>Add</b>	Festival bonus	50,000
	<b>Employee cost</b>	<u>13,36,000</u>

- (ii) Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of Onerous Contract or Constructive Obligation, legally enforceable shall be estimated and accounted based on quantum of pollution generated in each period and the associated cost of remediation or disposable in future.

For example, future disposal costs of solid waste generated during current period should be estimated on , say, a per tonne basis.

- 4 (a) **Evaluation of the personnel function of an organization by management auditor is by no means an easy task. In your view what areas are to be covered and points to be kept in mind while assessing the personnel function of an organization ?** [marks 8]
- (b) **While performing an Information System Audit, the Management Auditor should make sure that various objectives are met. Briefly describe them.** [marks 8]

**Answer: 4 (a)**

The personnel management is concerned with managing people at work for development of efficient and loyal employees for attainment of organization goals. So evaluation personnel function is not an easy task. The important areas to be covered by management auditor while evaluating personnel function are as follows:

- i) Methods followed for manpower planning, recruitment, training, promotion and transfers.
- ii) Action plan for reducing absenteeism.
- iii) Procedure for analysis of labour turnover and steps taken for reduction of the same.
- iv) Method adopted for developing wage and salary structure.
- v) Incentives plan – both financial, i. e. bonus, increment etc and non financial e.g job enrichment, promotion etc.
- vi) Welfare and safety measures adopted including social security measures and community development programmes.
- vii) Performance appraisal system of the organization.
- viii) Measures undertaken to boost employee morale.

The following points to be kept in mind while assessing the personnel function of an organization:

- i) It is difficult to exactly quantify the influence of human factors and its contribution to success or failure of the organization.
- ii) Development of a uniform yard stick for measurement of performance of a large group of workers is also not easy.
- ii) Workers get influenced by the overall industrial environment.
- iv) Motivating the employees towards achievement of organization goals is a very important as well as difficult task.
- v) The management auditor should assess whether the managers possess necessary leadership qualities and dynamic ideas to motivate their personnel.
- vi) The personnel function is a very important function because in the absence of a well organized personnel function, the company will not be able to utilize the other resources in optimum manner. Human resource is the most important resource in any organization.

- 4(b) While performing an Information System audit, Management Auditors should ascertain that the following objectives are met:
- (i) Security provisions protect computer equipments, programs, communications and data from unauthorized access, modification, or destructions.
  - (ii) Program development and acquisition is performed in accordance with management's general and specific authorization.
  - (iii) Program modifications have the authorization and approval of management.
  - (iv) Processing of transactions, files, reports and other computer records is accurate and complete.
  - (v) Source data that is inaccurate or improperly authorized is identified and controlled according to prescribed managerial policies.
  - (vi) Computer data files are accurate, complete and confidential.
- 5 (a) Give an "Audit programme" as an Internal Auditor of Wage Audit. 8 marks]
- 5 (b) You have been appointed as an internal auditor for M/s KBC Ltd which is a large manufacturing concern. You are asked to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above. [marks 8]

**Answer: 5 (a)**

Audit programme as an internal Auditor of Wage Audit:

- (I) Information about Auditee and audit work:
  - (i) Name of the Auditee.
  - (ii) Address/Location.
  - (iii) Period to be covered.
  - (iv) Estimated time(days) required.
  - (v) Audit Team members consists of Partner/Qualified/Semi-qualified etc.
  - (vi) Queries of the Auditor to be settled by the representative of the concern.
  - (vii) Report to be submitted to the representative of the company.
- (II) Study of various records:
  - (i) Wage related policy manuals.
  - (ii) Grade Structure.
  - (iii) Incentive Rules.
  - (iv) Overtime Rule.
  - (v) Bonus Scheme.
  - (vi) Various Statutory deduction schemes as for example ESI, PF, EPF etc.
- (III) Verification of:
  - (i) Payroll package is properly updated with employee's details and it is properly functioning.
  - (ii) Take out the list of employees for the purpose of verification that no entry is Bogus



- i.e Ghost Worker.
  - (iii) Ensure that all wage payments are made through banks.
  - (iv) (iv)Where payment is made in cash, whether it is done in presence of responsible officer.
  - (v) (v)Cross verify wage with some employees , so that there will be assurance with system.
  - (vi) (vi)Checking of Daily Attendance Sheet, Absenteeism Statement, Manpower Planning and Deployment.
  - (vii) Checking of Employee Signature at the time of payment in case of cash payment and Attendance Register.
  - (viii) Checking of Appointment/Retirement records of Employees.
- 5 (b) The Internal Audit Programme in connection with Plant and Machinery and Tools and Dies may be on the following lines:
- (i) Internal Control Aspects: The following may be incorporated in the audit programme to check the internal control aspects:
    - (A) Maintaining separate register for hired assets, leased asset and jointly owned assets.
    - (B) Maintaining register of fixed asset and reconciling to physical inspection of fixed asset and to nominal ledger.
    - (C) All movements of assets are accurately recorded.
    - (D) Authorization be obtained for –
      - (i) a declaring a fixed asset scrapped.
      - (ii) selling a fixed asset.
    - (E) Check whether additions to fixed asset register are verified and checked by authorised person.
    - (F) Proper recording of all additions and disposal.
    - (G) Examining procedure for the purchase of new fixed assets, including written authority, work order, voucher and other relevant evidence.
    - (H) Regular review of adequate security arrangements.
    - (I) Periodic inspection of assets is done or not.
    - (J) Regular review of insurance cover requirements over fixed assets.
  - (ii) Assets Register: To review the registers and records of plant, machinery, etc. showing clearly the date of purchase of assets, cost price, location, depreciation charged, etc.
  - (iii) Cost Report and Journal Register: To review the cost relating to each plant and machinery and to verify items which have been capitalised.
  - (iv) Code Register: To see that each item of plant and machinery has been given a distinct code number to facilitate identification and verify the maintenance of Code Register.
  - (v) Physical Verification: To see physical verification has been conducted at frequent intervals.
  - (vi) Movement Register: To verify (a) whether a Movement Register for movable equipments and (b) log books in case of vehicles, etc. are being maintained properly.
  - (vii) Assets Disposal Register: To review whether assets have been disposed off after proper technical and financial advice and sales/disposal/retirement, etc. of these assets are governed by authorisation, sales memos or other appropriate documents.

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- (viii) Spare Parts Register: To examine the maintenance of a separate register of tools, spare parts for each plant and machinery.
- (ix) Review of Maintenance: To scrutinise the programme for an actual periodical servicing and overhauling of machines and to examine the extent of utilisation of maintenance department services.
- (x) Review of Obsolescence: To scrutinise whether expert's opinion have been obtained from time to time to ensure purchase of technically most useful efficient and advanced machinery after a thorough study.
- (xi) Review of R&D: To review R&D activity and ascertain the extent of its relevance to the operations of the organisation, maintenance of machinery efficiency and prevention of early obsolescence.

- 6 (a) **Manufacture's specification capacity for a machine per hour=500 units**  
**No. of shifts (each shift of 8 hours each) =3shifts**  
**Paid holidays in a year (365 days) :**  
**Sundays = 52 days**  
**Other holidays = 13**  
**Annual maintenance is done during the 13 other holidays.**  
**Preventive weekly maintenance is carried on during Sundays.**  
**Normal idle capacity due to lunch time, shift change etc = 1hour per shift**  
**Production during last five years = 30.1, 26.9, 29.7, 24.4**  
**and 30.2 lac units.**  
**Actual production during the year = 30.1 units.**  
**Calculate Installed capacity, Normal capacity, Normal Idle capacity and Abnormal idle capacity as per CAS 2 from the data given. [marks 2+2+1+1]**

- 6 (b) **ASHIRBAD CEMENT LTD. has a captive power generation plant for its cement factory. The following information is available with regard to the power generation for the year ended March 31, 2017:**

Coal consumption	2400 tonnes @ ₹600 per tonne
Oil	3000 liters @ ₹50.50 per litre
Water	24000 gallons at ₹60 per gallon
Stores and other consumables	₹ 55,000

**Salaries of power generating plant:**

2 supervisors each at ₹10,600 p.m., 5 skilled workers each at ₹6,100 p.m., 3 helpers each at ₹4,200 p.m.

Salaries to boiler house attendant, 8 workers, each at ₹4,200 p.m.

Cost of power generating plant— ₹15,00,000 having life of plant 15 years with ₹ 60,000 residual value.

Cost of Boiler plant— ₹6,00,000 having life of plant 10 years with no residual value.

Miscellaneous income received by sale of ash— ₹ 50,000.

Repair and maintenance— Power generating plant ₹ 1,50,000, Boiler house ₹ 1,26,000.

Share of Administrative Overhead— ₹ 1,35,000.

Power generated during the year: 3024250 KWH.

Note: No power generated is used by the power generated plant itself.

You are required to prepare the Cost Sheet to calculate cost per kWh of electricity generated as per the Companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2017. [marks 10]

**Answer: 6 (a)**

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Installed capacity for the machine	= 365*8*3*500 = 43.8 lac units
Out of the past 5 years , normal capacity is average of 3 normal years	
Normal capacity	= (30.1+29.7 + 30.2)/3 = 30.0 lac units
Actual capacity utilization	= 30.1 lac units = 68.7% of Installed capacity
Normal Idle capacity	=(43.8-30.1) =13.7 lac units =31.3% of Installed capacity
Abnormal Idle capacity	= 31.5 - 30.1 =1.4 lac units

6 (b)

**ASHIRBAD CEMENT LTD**  
**STATEMENT SHOWING COST OF POWER GENERATED BY POWER GENERATED PLANT**  
**FOR YEAR ENDED MARCH 31, 2017**

Power generated			3024250 kwh
Particulars	Amount (₹)	Total Amount (₹)	Cost Per Kwh (₹)
Coal consumption (2400 × 600)	1440000		
Less: Sale of Ash	50000	1390000	0.46
Oil 3000 litres at ₹ 50.50 per ltr.		151500	0.05
Water 24000 gallans at ₹60/- per gallan		1440000	0.48
Stores and other consumables		55000	0.02
Salaries of generating plant			
Supervisor (2 ×10600 ×12)	254400		
Skilled Worker (5 × 6100 ×12)	366000		
Helpers (3 x 4200 ×12)	151200	771600	0.26
Salaries To Boiler House Attendant (8 × 4200 ×12)		403200	0.13
Repairs and maintenance			
Generating plant	150000		
Boiler house	126000	276000	0.09
Depreciation			
Generating Plant (1500000 - 60000)/15 Yrs.	96000		
Boiler House (600000/10 Yrs.)	60000	156000	0.05
Share of administrative overhead		135000	0.04
<b>Total cost of power generated</b>		<b>4778300</b>	<b>1.58</b>

So, Cost per KWH of Electricity generated = ₹1.58

7 (a) **BIDHISHREE LTD.** manufactures and sells a single product. During the year 2014-15, it earned a sales revenue of ₹ 5,040 lakhs based on a 20% profit on selling price. The product requires 30 pieces of material P and 15 pieces of material Q for manufacture as well as an operation time of 700 hours in the Machine Shop and 250 hours in the Assembly Section. Overheads are absorbed at a blanket rate of 33-1/3% on Direct Labour. The factory worked 5 days of 8 hours a week in a normal 52 weeks a year. The

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statutory holidays, leave and absenteeism and idle time amounted to 96 hours, 80 hours and 64 hours respectively, in the year.

The other details available from the Cost Accounting records of the company are as under:

Purchase Price	Material P	₹ 2,400 per piece
	Material Q	₹ 1,600 per piece
Comprehensive Labour Rate	Machine Shop	₹ 160 per hour
	Assembly	₹ 128 per hour
Number of Employees	Machine Shop	600
	Assembly	180

	Finished Product Stock	Materials P	Materials Q
Opening Stock	200 units	5,400 Pcs.	3,300 Pcs.
Closing Stock	250 units	3,000 Pcs.	6,600 Pcs.

As a Cost auditor of the company, you are required to:

- (i) Verify the number of units of the product manufactured (1,450 as per ledger) and sold (1,400 as per ledger).
  - (ii) Verify the purchases made of Materials P (₹ 986.40 lakh) and Q (₹ 400.80 lakh) during the year as per purchases ledger.
  - (iii) Compute the capacity utilisation of Machine Shop and Assembly Section. [4+4+2=10]
- 7 (b) There was a strike from 17.08.2016 to 28.10.2016 in a company of which you were the cost auditor for the year ending 31.03.2017. Although the company began working from 29.10.2016, production could effectively begin only from 30.11.2016. The expenses incurred during the year ended 31.03,2016 were:

Particulars	₹ in lacs
Salaries & Wages (direct)	3,000
Salaries & Wages (indirect)	2,000
Power (variable-90%)	1,200
Depreciation	1,800
Other fixed expenses	2,400
Repair and Maintenance(variable ₹1100 lacs)	1,400
Total	11,800

The following related to the period 17.08.216 to 29.11.2016

Particulars	₹ in lacs
Salaries & Wages (indirect)	700
Depreciation(non-productive)	600
Other fixed expenses	900
Repair and Maintenance(Indirect)	100
Total	2300

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product cost. [marks 6]

Answer: 7(a)

B IDHISHREE LTD.

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As total sales revenue is given, number of units sold can be found out by dividing sales revenue with selling price per unit.

### Selling price per unit

	₹	₹
<b>Materials cost:</b>		
P (30 Pieces × ₹ 2,400)	72,000	
Q (15 pieces × ₹ 1,600)	24,000	96,000
<b>Labour cost:</b>		
Machine shop (700 hours × ₹160)	1,12,000	
Assembly (250 hours × ₹ 128)	32,000	1,44,000
Overheads (33-1/3% of direct labour cost)		48,000
<b>Total cost of production</b>		2,88,000
Profit (20% on selling price or 25% of cost)		72,000
<b>Selling price per unit</b>		3,60,000

### (i) Verification of product sold and manufactured

	₹	₹
1. Total Sales revenue		5040 lakh
2. Selling price per unit		3.60 lakh
3. Number of units of the product (1/2)		1400 units
This is the same as per sales ledger		
4. Add: Difference in opening and closing stock		50 units
5. Number of units of the product manufactured		1450 units
This is the same as per ledger.		

### (ii) First find out materials consumed. This is worked out by multiplying production with pieces required for manufacture of each product.

	₹	₹
Materials consumed - P 1450 units × 30 pieces=		43500 pieces
-Q 1450 units × 15 pieces=		21750 pieces
	Materials P (Pieces)	Materials Q (Pieces)
Materials consumed	43,500	21,750
Add: Closing stock	3,000	6,600
Total	46,500	28,350
Less: Opening stock	5,400	3,300
Materials purchased (pieces)	41,100	25,050
Purchase piece per piece (₹)	2,400	1,600
Purchases in value (during the year) (₹)	9,86,40,000	4,00,80,000
(These are the same as shown in the purchase ledger)		

### (iii) Practical Available Hours

	Hours
Working hours during the year (52 weeks × 5 days × 8 hrs)	2080
Less: Statutory holidays, leave and absenteeism (96hrs+80 hrs+64 hrs)	240
Practical hours available	1840
	Machine    Assembly

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	shop	section
1. Practical hours available	1840	1840
2. Number of employees shop-wise	600	180
3. Total available hours (1×2)	1104000	331200
4. Number of the products manufactured	1450	1450
5. Operation time per number (Hours)	700	250
6. Production hours used (4×5)	1015000	362500
7. Capacity utilization (6/3)×100	91.94%	109.45%

**Comments:** There is an under utilization of Machine Shop. Immediate steps should be taken to correct this imbalance.

7 (b) Calculation of Fixed expenses incurred during the period 17.8.2016 to 29.11.2016

Particulars	₹ in lacs	₹ in lacs
Total expenses		11800
Less: Variable Expenses		
Power(1200 - 120)	1080	
Repairs & Maintenance	1100	2180
Total fixed expenses during 15-16		9620

Since strike period is 73 days and non-strike period is 292 days(292 + 73 = 365)

Fixed expenses calculated during strike period i.e 17/8/2016 to 28/10/2016

= 73 days

= ₹9620lacs /365\*73 = ₹1924 lacs

Fixed expenses during 29/10/2016 to 29/11/2016 = 32 days

=(₹2300 - ₹1924) lacs

= ₹376 lacs

Thus ₹1924 lacs is to be treated as abnormal cost and should be excluded from product cost.

8 (a) How do you define the following under Generally Accepted Cost Accounting Principles?  
 i) Value of self manufactured materials.  
 ii) Cost of cane supplied from own farm to sugar mill. [marks 2+2]

(b) What is meant by "Corporate Services Audit"?

Describe the areas of the "Corporate Services Audit", the scrutiny thereof and evaluation criteria used in the Audit. [8 marks]

(c) A manufacturing unit produces two products X and Y. The following information is furnished:

Particulars	Product X	Product Y
Units produced ( Qty)	20000	15000
Units Sold (Qty)	15000	12000
Machine Hours utilised	10000	5000
Design charges (₹)	15000	18000
Software development charges (₹)	24000	36000

Royalty paid on sales ₹54,000 [@ ₹2 per unit sold, for both the products]; Royalty paid on units produced ₹35,000 [@ ₹1 per unit purchased, for both the products], Hire charges of equipment used in manufacturing process of Product X only ₹5,000, Compute the Direct Expenses as per CAS 10. [4 marks]

**Answer: 8 (a)**

- i) Self manufactured materials (and self manufactured components and sub assemblies) are valued at cost including Direct Material Cost, Direct Employee Cost, Direct Expenses, Factory Overheads and share of Administrative Overheads relating to production. Share of other Administrative Overheads, Finance Cost and Marketing Overheads are excluded.
- ii) The cane supplied from own farm to a Sugar Mill is charged at State Advisory Price/Control Rate and profit/loss on farm taken to Profit & Loss Account directly. This is permitted by the Cost Accounting Record Rules for Sugar Industry. Such a treatment is advised where the correct determination of cost of the production of items procured from own farm is fraught with difficulty.

**(b)** With the enlarged role assumed by corporate organization in this country, the corporate bodies are expected to have better social responsibilities than in the past. The term "Corporate Services" refer to the activities that combine or consolidate certain enterprise- wide needed support services, provided based on specialized knowledge, best practices, and technology to serve internal (and sometimes external) customers and business partners viz. employees, shareholders, community, fellow businessman and Government. Management Auditor studies separately and properly, evaluate after critically examination of the different aspects of services and their extent that have been satisfactorily rendered by the corporate body and of evaluation of degrees of responsiveness and awareness on the part of such enterprise.

The areas of Corporate Service Audits are:

- Consumers - Quality goods in right qualities at right price, place and time.
- Employees - Pay, training, safety, welfare, industrial relations, etc.
- Shareholders - Safety of investment, satisfactory return, appreciation (in Value & Quantity & marketability)
- Community - Social Cost and Social benefit, public relations.
- Fellow businessmen - Business ethics and fair trade dealings.
- State/Government - Compliance with, the spirit of laws, fair trade practices, payment of taxes.

Auditor should consider the level of contribution a business entity makes to society and its business environment towards raising the quality of life through better product quality and services rather than profit maximization. So, it is an appraisal by the auditor as referred above and auditor's responsibilities lies in evaluating the company's response to social needs.

**(c) Computation of Direct Expenses**

Particulars	Product X ₹	Product Y ₹
Royalty paid on Sales	30000	24000
Add: Royalty paid on units produced	20000	15000
Add: Hire charges of equipment used in manufacturing process of Product X only	5000	-
Add: Design Charges	15000	18000
Add: Software development charges related to	24000	36000

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production		
<b>Direct Expenses</b>	<b>94000</b>	<b>93000</b>

**Note:**

- (i) Royalty on production and royalty on sales are allocated on the basis of units produced and units sold respectively. These are directly identifiable and traceable to the number of units produced and units sold. Hence, this is not an apportionment.
- (ii) No adjustments are made related to units held, i.e. closing stock.