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) From the following figures extracted from the financial and cost accounting records, you are required to compute:

(i) Value Added.
(ii) Ratio of Operating Profit to Sales.
(iii) Ratio of Operating Profit to Value Added.

Particulars	₹ in lacs
Net Sales excluding Excise Duty	42,000
Increase in Stock of finished goods	500
Expenses:	
Raw Materials consumed	8,600
Packing materials consumed	2,560
Stores and spares consumed	1,120
Power and fuel	9,200
Insurance	240
Direct salaries and wages	960
Depreciation	1,770
Interest paid	2,796
Factory overhead:	
Salaries and wages	480
Others	500
Selling and distribution expenses:	
Salaries and wages	240
Additional sales tax	914
Administration overheads:	
Salaries and wages	240

[10]

(ii) What are the matters that are relevant in formulating audit strategy and drawing up the audit plan? **[5]**

(b)(i) Give the following data, compute the relevant variances –

Particulars	Skilled	Semi-skilled	Un-skilled
Number in Standard gang (for 40 hour week)	16	6	3
Standard rate per hour (₹)	3	2	1
Actual number in the gang (for 42 hour week)	14	9	2
Actual rate of pay (₹)	4	3	2

In the week, the gang as a whole produced 900 Standard Hours, during the week, 4 hours per worker was considered idle time due to machine breakdown. **[10]**

(ii) Discuss briefly the role of the Cost Accountant In a manufacturing Firm. **[5]**

(c)(i) A Company uses a purchased component in an assembly. It follows a policy of Economic Order Quantity for procurement of the component. The Purchase Price of the component is ₹800 each and the cost of carrying one unit is 15% per annum. The cost of placing an order is ₹150. The Company has estimated the total cost of carrying and order placement at ₹36,000. The Supplier has offered a discount of 3% on the Purchase Price if the entire requirement of the component is covered in two purchase orders in a year.

i. Find the Economic Order Quantity.

ii. Calculate the Total Cost of Component Procurement and Storage, if the Discount Offer is accepted. Compare this cost with the Total Cost of the EOQ.

iii. What further discount if any, should be negotiated for minimising the cost? Assume that the inventory carrying cost does not vary according to discount policy. **[7]**

(ii) DDR Manufacturers, a small scale enterprise, produces a single product and has adopted a policy to recover the production overheads of the factory by adopting a single blanket rate based on machine hours. The budgeted Production Overheads of the Factory are ₹10,08,000 and budgeted Machine Hours are ₹96,000.

For a period of first six months of the financial year, following information were extracted from the books:

• Actual Production Overheads ₹6,79,000		
• Amount included in the Production Overheads:		
	(a) Paid as per Court's order	₹45,000
	(b) Expenses of previous year booked in current year	₹10,000
	(c) Paid to workers for strike period under an award	₹42,000
	(d) Obsolete Stores written off	₹18,000

Production and sales data of the concern for the first six months are as under:

Production:	Finished Goods	22,000 units
	Work-in-Progress (50% complete in every respect)	16,000 units
Sales:	Finished Goods	18,000 units

The actual machine hours worked during the period were 48,000 hours. It is revealed from the analysis of information that ¼ of the under-absorption was due to defective production policies and the balance was attributable to increase in costs.

You are required to:

i. Determine the amount of under-absorption of Production Overheads for the period,

ii. Show the accounting treatment of under-absorption of Production Overheads, and

iii. Apportion the Unabsorbed Overheads over the items. **[8]**

(d)(i) TUR Ltd. has two divisions. Division – I is involved in manufacturing of Railway and tramway locomotives & Division – II is involved in providing after sale service to their customer. His Aggregate annual turnover from manufacturing division is ₹ 70 crores and annual receipts from service division is ₹ 35 crores. State whether Companies (Cost Records and Audit) Rules, 2014 is applicable to the company? **[6]**

(ii) Opening stock of raw materials (10,000 units) ₹ 1,80,000; Purchase of Raw Materials (35,000 units) ₹ 7,00,000; Closing stock of Raw Material 7,000 units; Freight Inward ₹ 85,000; Self-manufactured packing material for purchased raw materials only ₹ 60,000 (including share of administrative overheads related to marketing sales ₹ 8,000); Demurrage charges levied by transporter for delay in collection ₹ 11,000; Normal Loss due to shrinkage 1% of materials; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. **[9]**

(e)(i) What are the duties of the Companies in relation to provisions of Section 148 of the Companies Act, 2013 and the Rules framed thereunder? **[5]**

(ii) CRA-3 requires Details of Material Consumed, Details of Utilities Consumed and Details of Industry Specific Operating Expenses respectively [Part B and Part C, Para 2(a), 2(b) and 2(c)]. In case of companies where number of materials or utilities or industry specific operating expenses is more than 10 each, which items should be disclosed in the respective paras? **[3]**

(iii) Basant & 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 - ₹ 500 (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%.

[7]

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

(a)(i) What are the objectives of Management Audit? **[5]**
(ii) What are the pre-condition for initiating Management Audit? **[5]**

(b) Distinguish the followings –
(i) Operational Audit and Internal Audit
(ii) Operational Audit and Management Audit **[2x5=10]**

(c)(i) Explain the Scope of Internal Control. **[5]**

(ii) Explain the silent features of special reports for Banks, Shareholders, Employees & Small Business. **[5]**

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

(a) Explain the Impact of IFRS on the Cost Structure, Cash Flows and Profitability. **[10]**

(b) Prepare the checklist for Production Function check. **[10]**

(c) As a management consultant, you have an assignment to conduct a Management Audit of the production function of a medium-scale engineering unit. Prepare a check list of the points on which you should undertake the study. **[10]**