

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: **[5×1=5]**

- (i) Cost Audit was initially introduced in the year -----
- (ii) CAS 5 deals with-----
- (iii) -----ensures that every rupee invested in capital or other fields gives optimum returns.
- (iv) The forex component of imported material is converted at the rate on -----
- (v) Para 4, Part A of the Annexure to Cost Audit Report deals with-----

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

- (i) The main emphasis of Management Audit is problem identification rather than problem solving.
- (ii) Under utilization of capacity has no impact on the Cost of Production of a product.
- (iii) Value addition is the difference between gross sales and the cost of bought out materials and services
- (iv) CAS 18 deals with Interest and Financing Charges.
- (v) XBRL is a language based on XML family of languages.

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

- (i) Which Companies are required to maintain Cost Records?
- (ii) Whether Value addition and distribution of earnings [part D, para 3] is to be computed based on Cost record data or audited financial data?
- (iii) What do you understand by 'Net Sales Realisation' with reference to CAS 24?
- (iv) How would you treat demurrage charges as per CAS 15?
- (v) How would you Employee Share Options costs under Generally Accepted Cost Accounting Principles?
- (vi) What do corporate objectives represent?

Section-B
[80 marks]

Answer any 5 questions from Question number 2 to 8. Each question carries 16 marks.

2.(a) The following information is extracted from the Cost Accounting Records of XYZ LTD. a Cement Company for the year ended March 31, 2017.

| | |
|---|--------------|
| Production | 96100 Tonnes |
| Norms for power consumption per tonne of cement | 95 KWH |
| Total power generated/consumed: | |

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| | |
|--|---------------|
| From the Electricity Board (EB) Grid. | 52272540 KWH |
| From the Captive power plant. | 62726720 KWH |
| From the Wind Mill (fed into the EB Grid and drawn at the factory site) | 47044815 KWH |
| Cost of fuel consumed | 44,39,26,234 |
| Other operating costs of generating set. | ₹ 2,84,81,558 |
| Total operating cost of Wind Mill. | ₹ 7,33,89,913 |

Note: The Electricity Board detects 10% of the Power fed into the Grid towards transmission losses.

Required:

As a Cost Auditor of the Company, How will you present the above data in the Annexure to the Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014?

[7]

- (b) MNP TECHNO LTD. is a manufacturer of Ball and Roller bearings. In the Company four operations are carried on simultaneously in the manufacture of components.

The input/output data and Direct Wages Cost relating to the year 2016-17 for one component are as follows:

| Operations | Gross Input (Tonnes) | Scrap (Tonnes) | Direct Wages (₹) |
|------------|----------------------|----------------|------------------|
| PM | 48000 | 8000 | 12,40,000 |
| QN | 50000 | 10000 | 12,50,000 |
| RA | 72000 | 12000 | 23,60,000 |
| SB | 55000 | 5000 | 32,70,000 |

Material is introduced at start of Operation PM at a cost of ₹ 6,000 per tonne. Scrap can be sold at ₹ 500 per tonne. Overheads are absorbed at 150% on Direct Wages. You are appointed as a cost consultant of MNP Techno Ltd. The company has not maintained cost records so far and seeks your advice in the matter.

Show your computation of the total cost per tonne of finished component so that the company can adopt the same in future.

[9]

- 3.(a) 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:

- The ₹10,00,000 after incurring and expenditure of ₹50,000.
- Some old assets sold off at the end-end fetching a profit of ₹160,000
- 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.
- Interest was received amounting to ₹3,00,000 from outside investments.
- 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.

[8]

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- (b) The following particulars pertaining to product AZ are extracted from the record of SHINJIN LTD. for the half year ended March 31, 2017.

| | Amount in ₹ Thousand |
|---|----------------------|
| Direct Material Cost | 827 |
| Direct Wages and Salaries | 200 |
| Indirect Materials | 75 |
| Direct Expenses | 100 |
| Factory overheads | 200 |
| Administrative overheads (20% relating to production activities) | 100 |
| Quality Control Cost | 25 |
| Research and Development Cost | 25 |
| Selling and Distribution Expenses | 15 |
| Sale of Scrap realised | 20 |
| Material Cost includes Excise duty paid | 27 |
| Actual Profit Margin | 15% |

You are required to determine:

- (i) The Cost of production for purpose of CAPTIVE CONSUMPTION in terms of Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000 and as per CAS-4 and
- (ii) Also Assessable value for the purpose of paying excise duty on Captive Consumption.

[6+2=8]

- 4.(a) You are the Cost Auditor of MERLIN TEXTILE MILLS LTD. for the year ended March 31, 2017.

The Company had a Strike from 16.09.2016 to 19.11.2016. Although the company resumed working from 20.11.2016 normal production was achieved only from 08.12.2016. The expenses incurred during the year ended March 31, 2017 were

| | Amount in ₹ Lakh |
|--|------------------|
| Salaries and Wages (Direct) | 1,800 |
| Salaries and Wages (Indirect) | 1,200 |
| Power (Variable-90%) | 600 |
| Depreciation | 1,080 |
| Other fixed expenses | 1,320 |
| Repairs and Maintenance (Variable-80%) | 600 |

Detailed examination of the records reveals that of the above, the following relate to the period 16.09.2016 to 19.11.2016.

| | Amount in ₹ Lakh |
|-------------------------------|------------------|
| Salaries and Wages (Direct) | Nil |
| Salaries and Wages (Indirect) | 480 |
| Depreciation (Non-productive) | 300 |
| Other fixed expenses | <u>660</u> |
| | <u>1,440</u> |

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Required:

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product costs. **[8]**

- (b) The extracts of Trial Balance of PANCHAL LTD. a manufacturing company pertaining to employees as on March 31, 2015 are given below:

| Particulars | Amount |
|---|-----------|
| | ₹ |
| <i>Debit</i> | |
| Salaries Cost | 25,45,785 |
| Employees Training Cost | 4,73,000 |
| Employees Selection Expenses | 2,25,000 |
| Perquisites –To Employees | 12,45,000 |
| Contribution to Gratuity Fund | 5,25,000 |
| Lease rental for accommodation provided to employees | 3,25,000 |
| Festival Bonus | 1,25,000 |
| Unamortised amount of Employee Cost related to a discontinued operation | 1,85,000 |
| Employer's contribution to P.F. including Penalties ₹ 35,000 | 2,75,325 |
| <i>Free accomodation to own employees</i> | |
| Depreciation | 1,00,000 |
| Municipal Tax | 5,5,000 |
| Maintenance | 45,000 |
| <i>Credit</i> | |
| Special subsidy received from Government towards employees salary | 1,75,000 |
| Recoverable amount from employee out of perquisites extended | 35,000 |

Required:

(i) Calculate the Employees cost for the year ended March 31, 2015—Keeping in view of cost Accounting Standard (CAS)-7.

(ii) Specify the disclosures required.

[5+3=8]

- 5.(a)** The following data have been obtained from the records of a machine shop for an average month.

| | Budget |
|---|----------------------------------|
| No. Of working days | 25 |
| Working hours per day | 8 |
| No. of direct workers | 16 |
| Efficiency | One standard hour per clock hour |
| Down time | 20% |
| Fixed Overhead | ₹ 15360 |
| Variable Overhead | ₹ 20480 |
| The actual data for month of September 2016 are as under: | |
| Fixed Overhead | ₹16500 |
| Variable Overhead | ₹14500 |
| Net operator hours worked | 1920 |

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| | |
|-------------------------|------|
| Standard hours produced | 2112 |
|-------------------------|------|

There was a special holiday in September 2016. Required to present following cost ratios to present report to Departmental Manager:

- i) Efficiency ratio
- ii) Activity ratio
- iii) Capacity utilization ratio
- iv) Capacity usage ratio
- v) Idle capacity ratio
- vi) Calender ratio

[1+2+1+2+1+1=8]

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

6.(a) GOLDEN FIBRE LTD. producing Jute goods wants to participate in the 'Swatch Bharat

Mission'of Government of India.Discuss about the social commitment of the corporates towards environment pollution control and the treatment of costs as per CAS-14. **[8]**

(b) ABUNA ELECTRONICS LTD. is engaged in the manufacture of LED TV sets having its factories at Patna and Gujarat. The company manufactures picture tube at Patna which is consumed to produce LED TV sets at Gujarat factory. The following information pertaining to captively consumed picture tubes are extracted from the records of the company for the Half year ended March 31, 2016.

(Amount in ₹Thousand)

| | |
|--|-------|
| Direct material inclusive of excise duty ₹ 94 thousand | 1,044 |
| Direct wages and salaries | 357 |
| Direct expenses | 80 |
| Indirect materials | 70 |
| Factory overheads | 320 |
| Administrative overheads (20% relating to production activities) | 640 |
| Quality control cost | 100 |
| Research and development cost | 125 |
| Selling and distribution expenses | 225 |
| Sale of scrap realised | 130 |
| Profit margin | 15% |

You are required to determine:

- (i)** The cost of production for purpose of captive consumption in terms of Rule-8 of the Central Excise Valuation (Determination of price of Excisable Goods) Rules and as per CAS-4, and
- (ii)** Also Assessable Value for the purpose of paying excise duty on Captive Consumption.

[6+2=8]

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. **[9]**

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- (b)** As per Companies Act 2013 which companies are required to conduct Internal Audit?
Who can be internal auditor as per the Act? **[7]**
- 8. (a)** 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. **[2+6=8]**
- (b)** Write a note on "Audit Committee" under the Companies Act, 2013 in brief. **[8]**