

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 (All questions are compulsory)

1. Choose the correct option among four alternative answer. (1 mark for correct choice, 1 mark for justification wherever applicable & necessary) [10*2=20 marks]
- (i) The following is not a professional misconduct in relation to Costs Accountants in practice as per the Second Schedule of the CWA Act, 1959:
- (A) Does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
 - (B) Expresses his opinion on cost or pricing statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest;
 - (C) Fails to report a material mis-statement known to him to appear in a cost or pricing statement with which he is concerned in a professional capacity
 - (D) In the opinion of the Council he brings disrepute to the profession or the institute as a result of his action whether or not related to his professional work.
- (ii) Form for filing Cost Audit Report with the Central Government is :
- (A) CRA 1
 - (B) CRA 2
 - (C) CRA 3
 - (D) CRA 4.
- (iii) Overall Objectives of the Independent Cost Auditor and Conduct of an Audit in Accordance with Cost Auditing Standards is dealt in:
- (A) Cost Auditing standard 101.
 - (B) Cost Auditing standard 102.
 - (C) Cost Auditing standard 103.
 - (D) Cost Auditing standard 104.
- (iv) Cost Accounting standard on Cost of Service Cost Centre is dealt in:
- (A) CAS 12
 - (B) CAS 13
 - (C) CAS 14
 - (D) CAS 15
- (v) Telecommunication services is under:
- (A) Regulated Sector
 - (B) Unregulated Sector
 - (C) None of the above.
 - (D) Both of the above.
- (vi) The Annexure to the Cost Audit Report to be signed by:
- (A) The Chief Finance Officer and the Managing Director
 - (B) One Director and Company Secretary
 - (C) The Company Secretary and CFO
 - (D) The Officer in –charge of Cost Accounts and the Company Secretary.
- (vii) Management Audit is:
- (A) Mandatory
 - (B) Voluntary
 - (C) Statutory
 - (D) Involuntary

- (viii) Consumer Services Audit critically examines the product are available to consumers at:
- (A) Right time and place
 - (B) Right quantity and price
 - (C) Both (A) and (B)
 - (D) None (A) and (B)
- (ix) Personnel Management is concerned with:
- (A) Human relationship.
 - (B) Departmental relationship
 - (C) Corporate relationship
 - (D) Business relationship
- (x) _____ Analysis is evaluation of every resources declared in the industry.
- (A) Energy
 - (B) Efficiency
 - (C) Productivity
 - (D) Capacity

Section B [80 marks]

(Answer any 5 questions from this section)

2. (a) 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) 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]
- (b) Explain whether the following amounts to professional misconduct by a Cost Accountant:
- (i) P, a practicing CMA Q is a practicing Advocate representing matters in courts of law. P and Q agree to help each other in matters involving their professional expertise. Accordingly P recommends Q in all tax litigations in courts of law. Q consults P on all matters relating to costing and related matters, which come to him for arguing in various courts of law. They agree to 'share' the remuneration.
 - (ii) R, a CMA, certifies a financial forecast of his client which was forwarded to the client's bank based on which the bank sanctioned a loan to the client. [4+4]

3. (a) (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 amounting ₹ 25000)	10,20,000
Employer's contribution to Provident Fund(including ₹ 2000 as penalty for violation of PF rules)	1,00,000
Employee's Contribution to PF	75,000
Festival bonus	50,000
Unamortised amount of Employee cost related to discontinued	90,000

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operation	
Employee training cost	2,00,000
Festival advance	35,000
Depreciation on rent free accommodation given to employees	1,00,000
Maintenance charges of the said accommodation	90,000
Municipal Tax on the said accommodation	3,000

- (ii) How would you treat future remediation or disposal costs under CAS-14 relating to Pollution Control Costs? [6+2]
- (b) The following particulars pertaining to Product-A are extracted from the record of PROTECT LTD. for the Half year ended March 31, 2017:

	(Amount in ₹ Thousand)
Direct Material Cost per unit inclusive of Excise Duty ₹191 thousand	1,740
Direct Wages & Salaries	1,260
Direct Expenses	200
Indirect Materials	253
Factory Overheads-	677
Administrative Overheads (25% relating to Production activities)	1,240
Quality control Cost	525
Research and Development Cost	360
Sale of scrap realised	180

You are to determine the cost of production for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation (DPE) Rules 2000 and as per CAS-4 and Assessable Value for purpose of paying excise duty on captive consumption. [6+2]

4. (a) Draft a management audit questionnaire for audit of inventory. [8]
- (b) What do you understand by "Corporate Services Audit"? Describe the areas of Corporate Services Audit, the scrutiny thereof and the evaluation criteria used in such audit. [8]
5. (a) (i) ABC Ltd. with turnover of ₹ 250 crore in year 2016-17. The company is not listed in stock exchange. Is the company under obligation to appoint an internal auditor?
- (ii) CMA X is in employment with PQR Ltd. The company is listed in stock exchange. The company appoints CMA X as internal auditor. Is the appointment valid? [4+4]
- (b) Give an "Audit programme" as an Internal Auditor of Wage Audit. [8 marks]

6. (a) BURNET LTD., a manufacturing unit, provides the following extracts from its records for the year ended March 31, 2017:

The Company's specifications capacity for a machine per hour	1500 units
No. of shifts (each shift of 8 hours) per day	3 shifts
Paid Holidays in a year (365 days):	
Sunday	52 days
Other holidays	12 days
Annual maintenance is done within these holidays	---
Preventive weekly maintenance for the machine is carried on during Sundays	
Normal idle capacity due to lunchtime, shift changes etc. per shift	1 hour

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Production based on sales expectancy in past 5 years (units in Lakh):	75.70
	87.42
	65.38
	77.97
	76.08

Actual Production for the year (units in lakh): 81.50

You are required to calculate:

(i) Installed Capacity

(ii) Actual Capacity

(iii) Normal Capacity

(iv) Idle Capacity

(v) Abnormal idle Capacity

— Keeping in view of the relevant Cost Accounting Standard (CAS-2). [10 marks]

(b) The following information is extracted from the Cost Accounting Records of RAYGOLD 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:	
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? [6 marks]

7. (a) The following is the Profit and Loss Account of Giant Industries Ltd., a single product company, for the year 2016 – 2017.

Income:		(₹ in lakhs)
Gross Sales		4540.38
Other income:		
Dividend received	2.38	
Interest received	54.11	
Profit on sale of Investment	3.52	
Sale of Scrap	<u>17.32</u>	<u>77.33</u>
		4617.71

Expenses:

Materials consumed	2648.94
Decrease in Stocks	90.78
Stores and Spares	112.04
Power and Fuel	73.96
Repairs and Maintenance	19.33
Labour, Processing and Hire charges	14.62
Salaries, Wages and other employee costs	56.94
Samples, Sales Promotion and Advertisement	2.39
Brokerage, Discount and Commission	12.22
Warehousing and Distribution Expenses	96.07

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Additional Sales Tax/Turnover Tax (not recoverable)	21.39
Provision for bad Debts	5.17
Insurance, Rates and Taxes and other admn. Expns.	90.26
Central Excise Duty paid	331.50
Interest and Finance charges	182.51
Depreciation	281.61
Loss on Sale of Assets	<u>1.82</u>
Total	4041.55
Profit before Taxes	576.16
Total	4617.71

Notes:

1. Salaries and Wages includes ₹12.56 lakh taken to Admin. & Selling Overheads.
2. Depreciation Includes ₹ 12.40 lakh taken to Admn. And Selling Overheads.
3. Closing stock as on 31.3.2017:

Raw Materials	245.04 lakh
Stores and Spares	84.43 lakh
Work in process	51.98 lakh
Finished Goods	115.95 lakh

Work out the following ratios as stipulated in the Annexure to the Cost Audit Report:

- i) Value addition as percentage of Sales.
- ii) Interest as a percentage of Sales.
- iii) Stock of Work in Process in terms of number of months cost of production.

Clearly State your assumptions.

[marks 8]

- (b) The following is a summary of the Profit and Loss Account of M/s. Straw Berry Company Limited for the year ended 31.03.2017

		₹ in lakh
Sales		13,540
Cost of Sales:		
Raw Materials, Stores and Spares	5,600	
Excise Duty	830	
Salaries and Wages	1,400	
Power and Fuel	470	
Repairs and Maintenance:		
Major Breakdown Repairs	35	
Other regular maintenance	94	
Carriage Outwards	320	
Insurance General	34	
Insurance-Transit	22	
Advertisement and Sales Promotion	720	
Rent, Rates and Taxes	97	
Printing, Stationery etc.	437	
Travelling and Conveyance	776	
Other Administrative expenses	426	
Depreciation	391	
Interest	1,494	
Profit		13,146
		394

There was a major breakdown of machinery resulting in loss of production for 42 days, in June and July, 2016 and a labour strike for 97 days from 14.2.2017 to 21.5.2017. The Company produced a single product (Steel-Billet) and the production during the year was 942000 kgs.

You are required to compute the amount of abnormal cost on account of the breakdown and strike and the impact on cost per unit of output. Where do these figures find a place in the Cost Audit Report?

[marks 8]

8. Answer any 4 questions

[marks 4*4]

- (a) 'Research and Development Costs shall include all the costs that are directly traceable to research and/or development activities'.
(i) On what basis these costs can be assigned to Research and Development activities as per CAS-18?
(ii) How would you assign 'development costs' attributable to a saleable service?
- (b) What is productivity audit? What measures are used in this audit?
- (c) What are the characteristics of a good Management Audit Report?
- (d) Purchase of material \$ 50,000 [Forward contract rate \$ = 54.40 but \$ = 54.60 on the date of importation]; Import Duty paid ₹ 5,65,000; Freight inward ₹ 1,62,000; Insurance paid for import by road ₹ 48,000; Cash discount ₹ 33,000; CENVAT Credit refundable ₹ 37,000; Payment made to the foreign vendor after a month, on that date the rate of exchange was \$ = 55.20. Compute the landed cost of material.
- (e) SHANHITA LTD., a manufacturing company, producing Industrial chemicals had the following income during the year 2016-17:

Income:	(Amount in ₹ Lakhs)
Sales: Manufactured products	43,750
Traded products	2,830
Income from job Works	780
Sale of Defectives	130
Export Incentives	85
Cash Discount Received	35
Note: Sales inclusive of Excise Duty	2,840

Required:

Find out the Turnover of the company as per the Companies (Cost Records and Audit) Rules, 2014.