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

Answer: 1

1. (i) (D) This is clause (2) of Part IV , The First Schedule of the CWA Act, 1959.

(ii) (D) This is pursuant to Rule 6(6) of the Companies (Cost Records and Audit) Rules, 2014.

(iii) (C) This standard on auditing deals with the overall objectives of the independent cost auditor, the nature and scope of a cost audit the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with cost auditing standards.

(iv) (B) This standard deals with the principles and methods of determining the cost of service cost centre.

(v) (A) Pursuant to Rule 3 of the Companies (Cost Records and Audit) Rules, 2014.

(vi) (B) Pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014.

(vii) (A) It is undertaken by Management as it helps in effective functioning of every area of operations coming under management purview

(viii) (C) The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services.

(ix) (A) "Personnel Management" is that part of the management function which is primarily concerned with the human relationships within an organization. Personnel management is concerned with helping the employees to develop their potentialities and capacities to the maximum possible extent.

(x)(C) Productivity involves variables of input resources and the output. Measuring, identifying and isolating the different input resources and analyzing their contribution to produce goods and services and their effect on costs and profitability is imperative of Productivity Analysis.

Section B

(Answer any 5 questions from this section)[80 marks]

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]

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]

Answer: 2

2 (a) (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.

2 (b) (i) A CMA in practice shall be deemed to be guilty of professional misconduct if he either directly or indirectly shares commission or brokerage in the fees or profits of his professional business to any other than member of the Institute or accepts any part of the profits of the professional work of a lawyer, broker, etc. who is not a member of the Institute. Thus, as per Clauses 2 and 3 of Part I of the First Schedule to the Cost and Works Accountants Act, 1959 a member in practice can neither share fees or profits with a person who is not a member of the Institute nor he is permitted to receive and share the fees of other such as lawyers, engineers, etc.

P and Q therefore cannot "share" any remuneration. They may, however, remunerate each other for "professional" services rendered on any reasonable basis separately which would be on time basis at rates depending on the extent of expertise. It is, however, important that care should be taken by the member not to extend his service beyond the normal sphere of professional practice and any reports or recommendations should clearly delimit the responsibilities assumed and services rendered.

(ii) Under Clause (3) of Part I of Second Schedule to the Cost and Works Accountants Act, 1959, a CMA in practice is deemed to be guilty of professional misconduct if he permits his name or the name of his firm to be used in connection with an estimate of cost or earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast. Accuracy does not refer to arithmetical accuracy. All forecasts are estimates based on certain assumptions duly evaluated on a consideration of various relevant factors and cannot be ascertained with accuracy. ut, first of all, he should clearly indicate in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts and, secondly, he should not vouch for the accuracy of the forecasts. In the instant case, Mr. R is deemed to be guilty as it appears that he has certified the financial forecast without taking adequate safeguards.

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)	1020000
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]

3 (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]

Answer: 3

3 (a) (i)

	Particulars	Amount(₹)
	Gross Pay (net of idle time)= ₹ (1020000 - 25000)	995000
Add	Cost of rent free accommodation (Depreciation + Municipal Tax + Maintenance Charges) = ₹(100000 + 3000 + 90000)	193000
Add	Employer's contribution to PF = ₹(100000 - 2000)	98000
Add	Festival bonus	50000
	Employee cost	1336000

(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.

3 (b) **Protect Ltd**

Computation of Cost of Production (as per CAS - 4)

	(Amount in ₹ Thousand)
Direct Material excluding Excise duty (1740 -191)	1549
Direct wages and salaries	1260
Direct Expenses	200
Works Overhead (253 + 677)	930
Quality Control C- cost	525
Research and development cost	360
Administrative Overhead (relating production activities)	310
Less: Sale of scrap	180
Cost of Production	**4954**
Add: 10% as per rule - 8 of CEV (DPE) Rules	495.40
Assessable value as per Rule 8 of the CE valuation Rules of 2000	**5449.40**

4 (a) Draft a management audit questionnaire for audit of inventory. [8 marks]

4 (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 marks]

Answer: 4

4 (a) A management audit questionnaire for audit of inventory is given below:

<u>Long Range Plans</u>

- ♦ Is inventory management sufficiently qualified to meet long-range company objectives?
- ♦ Are long-range inventory management plans coordinated with: production, purchasing and finance?

- Is inventory properly and efficiently stored to reduce obsolescence, pilferage, etc.
- Is there an adequate system to plan inventory in the long run at optimum levels?
- Are inventory plans and procedures audited periodically?

Short or Medium Range Plans

- Is inventory management sufficiently qualified to meet short or medium range objectives?
- Are inventories under control as to type and amount?
- Are short-range inventory management plans an integral part of production and purchasing?
- Is there an adequate inventory system to plan current inventory at optimum levels detect theft and compare physical to perpetual inventories?
- Are lead times figured into inventory levels for purchasing and manufacturing?
- Are reorder levels set?
- Do the plans include 'make' or 'buy' decisions to lower costs?

Organisation Structure

- Is the inventory department under directons of a suitable person?
- Are the inventories and their in-plant movements organised and reported by their basic types, i.e., raw materials, work in progress and finished goods?
- Is there an effective system of physical inventory to disclose any irregularities or losses?
- Is the ABC analysis followed for the inventory control?

Communication

- Is there an information system utilised that employs efficient management, methods and techniques to control inventories and to prepare periodic inventory reports that are of great value to management?
- Is there an effective communication system designed to assist in, keeping the inventory turnover rate high?
- Is there good managerial control over movement of work-in-process materials so that this inventory is kept at a minimum?

Control

- Are inventory management control reports, methods and techniques integrated with production and purchasing?
- Are inventories properly stored to provide a minimum of:
  - i. obsolescence?
  - ii. deterioration?
  - iii. pilferage?
- Is inventory control integrated with:

i. economic order quantities?

ii. re-order points?

- Have steps been taken to balance the cost generated by too small an inventory against the cost of carrying excessive inventories to determine an optimum inventory turnover?
- Are inventory items physically counted to make sure that perpetual inventory records are accurate?
- Is inventory controlled through the use of the ABC concept (A = high-value items, B = medium-value items, C = low-value items)?
- Is there an effective management control system for receiving materials that are not on a purchase order, i.e., products returned by customers?

4 (b) The term "Corporate Services" is a generic term, which implies service oriented obligations of a corporate body to different interested 'Public' such as consumers, shareholders, community, fellow-businessmen, government etc. It includes the social responsiveness of a business enterprise.

Corporate Services Audit is the audit of social behavior of the company to assess the extent to which the company had met the expectations of the customers , employees, shareholders, suppliers and the community.

The scope of the Corporate Services Audit extends to the critical examination of the different aspects of services and the extent to which the corporate body has rendered satisfactory services. It also includes the evaluation of the degrees of responsiveness and awareness on the part of such enterprise. The performance of the management towards customers , employees, shareholders, suppliers , the community and government is studied separately and properly evaluated by management auditor.

The areas of Corporate Services Audit and the scrutiny and evaluation criteria can be categorized as follows:

Consumers: Quality of goods in right quantity, right price, right place and right time.

Employees : Pay, Safety, Welfare and Industrial Relations etc.

Shareholders: Safety of investment, satisfactory return and capital appreciation.

Community: Social cost and social benefit, public relation

Fellow- businessmen: Business ethics and fair trade dealings.

State: Compliance with various legislations, fair trade practices, payment of taxes etc.

The concept of Corporate Services Audit is that its appraisal system should consider the level of contribution a business entity makes to society and its environment towards raising the quality of life through better product quality and services rather than profit maximization. The Corporate Services Audit thus attempt to distinguish between the end and means of business and provides a new dimension to the concept of audit approach. In Corporate Services Audit , the auditor checks the company's response to different social needs.

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]

5 (b) Give an "Audit programme' as an Internal Auditor of Wage Audit. [8 marks]

Answer: 5

5 (a) (i) As per Rule 13- Companies(Accounts)Rules, 2014, every unlisted public company having turnover of two hundred crore rupees or more during the preceding financial year is required to appoint internal auditor.

ABC Ltd is a public limited company with turnover of ₹250 crore in 2016-17. So the Company is required to appoint internal auditor in 2017-18.

(ii) As per section 138, (1) such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant **or a cost accountant**, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

As per Rule 13- Companies(Accounts)Rules, 2014 , internal auditor may or may not be employee of the company.

CMA X by virtue of being employee of company and a Cost Accountant is eligible for appointment as Internal Auditor.

5 (b) 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) (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) (vii)Checking of Appointment/Retirement records of Employees.

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):	
(i) Sunday	**52 days**
(ii) Other holidays	**12 days**
Annual maintenance is done within these holidays	**---**
Preventive weekly maintenance for the machine is carried on during Sundays	**1 hour**
Normal idle capacity due to lunchtime, shift changes etc. per shift	**75.70**
Production based on sales expectancy in past 5 years (units in Lakh):	**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]

6 (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]

Answer: 6

6 (a) ***Burnett Ltd***

Calculation of different capacities

(i) Installed Capacity: 365 × 8 × 3 × 1500 = 131.40 lakhs unit

(ii) Actual capacity Utilisation: (81.50 / 131.40) × 100 = 62.02%

(iii) Normal capacity: (87.42 +77.97 + 76.08) / 3 = 80.49 Lakh unit

(iv) Idle Capacity: (131.40- 81.50) = 49.90 / 131.40 = 0.37.98= 37.98%

(v) Abnormal Idle capacity : (80.49- 81.50)= (-)1.01 Lakh units

6 (b) (i)

RAY GOLD LTD. Statement showing the cost of power consumed for the year ended March 31, 2017.

	Qty (KwH)	Rate (₹)	Amount (₹)
1. Power received from the Electricity Board (grid)	52272540	1.73	90431494
2. Self Generated			
(A) Captive Power Plant	62726720	2.27	142407792
(B) Wind mill (9% of generation)	42340334	1.73	73389913
Total	157339594	1.946	306229199

Production of Cement: 96100 Tonnes.

Actual Consumption of Power per Tonne: 1637.25

Note:

Cost of Power received from Electricity Board (grid):

It is assumed that the company purchased power from electricity board at the Wind Mill (fed to EB grid) rate i.e. ₹ 1.73 per KwH during the year 2016-17. Hence, cost of power will be ₹ 90431494.

PART-B. PARA-2

ABRIDGED COST STATEMENT (for each product with CETA heading separately)

	Name of Product			CEMENT		
	CETA heading			2523; 6811 to 6812		
	Unit of Measure			Tonne		
		Production	Finished stock adjustment	Captive consumption	Other adjustments	Quantity sold
	Current year	96100				
	Previous year					

Sl No.	Particulars	Year 2016-17		Year 2015-16	
		Amount in ₹ Lakh	Rate per Unit (₹)	Amount (₹)	Rate per Unit (₹)
1	Materials consumed (specify details as per para 2A)	-			
2	Process Materials/Chemicals	-			
3	Utilities (specify details as per Para 2B)	3062.29	3186.57		
4	Direct Employees Cost				
5	Direct Expenses				
30	Cost of Sales (28+29)				
31	Net Sales Realisation (net of taxes and duties)				
32	Margin (Profit/Loss) as per Cost Accounts (31-30)				

PARA- 2B

Details of utilities consumed		
	Name of Product	CEMENT
	CETA heading	2523; 6811 to 6812

SL No.	Description of material	UOM	Year 2016-17			Year 2015-16		
			Qty (KwH)	Rate per unit (₹)	Amount in (₹) lakhs	Qty	Rate per unit (₹)	Amount (₹ in lakh)
1.	Power	KwH	157339594	1.946	3062.29			
2.								
3.								

Alternative :

Statement showing the cost of power consumed for the year ended March 31, 2017.

	Qty (KwH)	Rate (₹)	Amount
1. Power received from the Electricity Board (grid) (State Govt.)	52272540	-	-
2. Self Generated	62726720	2.27	142407792
(A) Captive Power Plant	42340334	1.73	73389913
(B) Wind mill (9% of generation)			
Total	157339594	1.372	215797705

Production of Cement: 96100 Tonnes.
Actual Consumption of Power per Tonne: 1637:25
Note:

Cost of Power received from Electricity Board (grid):

It is assumed that state government provided free power (i.e. at zero rate) to the cement company as incentive for the industry during the year 2016-17. Hence, cost of power will be zero/nil.

PART-B.

PARA-2

ABRIDGED COST STATEMENT (for each product with CETA heading separately)Name of Product

	Name of Product			**CEMENT**		
	CETA heading			2523; 6811 to 6812		
	Unit of Measure			Tonne		
		Production	Finished stock adjustment	Captive consumption	Other adjustments	Quantity sold
	Current year	96100				
	Previous year					

Sl No.	**Particulars**	**Year 2016-17**		**Year 2015-16**	
		Amount in ₹ Lakh	Rate per Unit (₹)	Amount (₹)	Rate per Unit (₹)
1	Materials consumed (specify details as per para 2A)	-			
2	Process Materials/Chemicals	-			
3	Utilities (specify details as per Para 2B)	2157.98	2245.55		
4	Direct Employees Cost				
5	Direct Expenses				
30	Cost of Sales (28 + 29)				
31	Net Sales Realisation (net of taxes and duties)				
32	Margin (Profit/Loss) as per Cost Accounts (31-30)				

PARA- 2B

Details of utilities consumed		
	Name of Product	CEMENT
	CETA heading	2523; 6811 to 6812

SL No.	**Description of material**	**UOM**	**Year 2015-16**			**Year 2016-17**		
			Qty (KwH)	Rate per unit (₹)	Amount in (₹) lakhs	Qty	Rate per unit (₹)	Amount (₹ in lakh)
1.	Power	KwH	157339594	1.372	2157.98			
2.	……………….…							
3.	………………							

	….							

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	17.32	77.33
		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
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	1.82
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]

7 (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]

Answer: 7

7. (a) Assumptions:

1. The profit as per costing records has been reconciled with Financial Accounts.
2. The closing stock figures are same in both Financial and Cost Accounts.
3. Opening stock of WIP not known; hence, ignored in cost of production.

	₹ in lakhs	₹ in lakhs
Sales:		
Gross Sales		4540.38
Less Excise Duty		331.50
Net Sales		**4208.88**
Value Addition:		
Profit before Taxes		**576.16**
Depreciation		**281.61**
Interest and	**182.51**	

Financial Charges		
Less: Interest received	**54.11**	**128.40**
Employee Cost Additional Sales Tax		**56.94** **21.39**
		1064.50
Add:		
Items which are not considered as bought out goods and services:		
Provision for Bad Debts	**5.17**	
Loss on Sale of Assets	**1.82**	**6.99**
Value Addition		**1071.49**
Value addition as % of Sales = 1071.49/4208.88 = 25.45%		

(ii)

		₹ in lakhs
Interest & Finance Charges		**182.51**
Less: Interest received		**54.11**
Net Interest		**128.40**
Interest as % of Sales = 128.40/4208.88 = 3.05%		

(iii)

	₹ in lakhs	₹ in lakhs
Cost of Production:		
Materials consumed		**2648.94**
Stores and Spares		**112.04**
Power and Fuel		**73.96**
Repairs and Maintenance		**19.33**
Labour processing & Hire Ch.		**14.62**
Salaries and Wages	**56.94**	
Less: Admin OH & Selling OH	**12.56**	**44.38**
Depreciation	**281.61**	
Less: Admin OH & Selling OH	**12.40**	**269.21**
		3182.48
Less: Sale of scrap		**17.32**
Cost of Production		**3165.16**

Note: Insurance, Rates and Taxes assumed to be entirely includible in Administration Overhead since break up details for Factory Overhead are not available.

Cost of production	3165.16
Average per month	263.76
Stock of work in progress	51.98

Stock of WIP in terms of no. of months cost of production = 51.98/263.76 = 0.20 or 20%.

7 (b) Period Costs incurred when there is no production are deemed as abnormal and the costs apportioned for such periods are excluded from cost of production of the product.

	₹ in lakh
Salaries & Wages	1400
General Insurance	34
Rent, rates & taxes	97
Other administrative expenses	426
Depreciation	391
Interest	1494
Total Fixed Cost	3842

Total period of production stop*page:*

Due to machinery breakdown	42 days
Due to strike 14.02.2017 to 31.03.2017	46 days
	88 days

Fixed Costs apportioned to the period of production stoppage

= ₹3842 lakhs x 88 / 365	₹926.29 lakhs
Major breakdown repair	₹35.00 lakhs
Total abnormal cost	₹961.29 lakhs

This work out to approximately 7.3% of the total cost of production and should be excluded from the respective elements of cost in the cost sheets and should be stated in Profit Reconciliation Statement in Part D of the Annexure to the Cost Audit Report.

The abnormal cost included in Cost of Production is ₹9,61,29,000/9,42,000 = ₹102.37 per Kg.

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.

Answer: 8

8 (a) (i) Research and development costs shall include all the costs that are directly traceable to research and/or development activities or that can be assigned to research and development activities strictly on the basis of:

(I) Cause and effect or (II) benefits received.

(ii) Development costs attributable to a saleable service e.g providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.

(b) Productivity audit is the process of monitoring and evaluating organizational practices to determine whether functions, programmes, and organization itself are utilizing resources effectively and efficiently so as to accomplish objectives.

It is measured in terms of outputs and inputs in relation to the three major factors of production i.e. material , labour and capital. The measurement used in relationship between outputs and inputs measured in physical and/or financial terms.

The measures of productivity for three factors of production :

Material productivity:i)Obtaining higher output for same input.

ii)Obtaining same output with lower input

Labour productivity: i)Labour hour per unit of product.

ii)Output per man hour.

iii)Added value per capita or per rupee of labour cost.

Capital productivity: i)Physical output per rupee of investment.

ii)Value of production per rupee of investment.

iii)Value added per rupee of investment.

(c) Characteristics of a good management audit report .

The detailed characteristics of a good management audit report can be summarized as follows :

(i) Pertinence
(ii) Comprehensiveness

(iii) Brevity
(iv) Timeliness
(v) Motivating
(vi) Formatting

(d) Computation of Landed Cost of Material

Particulars	₹
Purchase price of material [50,000 × 54.60] Add: Import Duties of purchasing the material	2730000 565000
Add: Freight Inward during the procurement of material	162000
Add: Insurance of the material (In case of import of material by road/Sea)	48000
Total	**3505000**
Less: CENVAT Credit refundable	37000
Value of receipt of material	**3468000**

Notes:

(i) Excess payment made to the vendor due to exchange fluctuation is not an includible cost, hence not considered.

(ii) Though the forward contract rate was \$ = 54.40, but the exchange rate on the date of importation is considered. Hence, included in the cost of materials. Accordingly, the purchase cost is computed considering the \$ = 54.60.

(e) **The turnover of the company (Shanhita Ltd) for the year 2016-17 as per the Companies (Cost Records and Audit) Rules, 2014 is calculated as follows:-**

	(in ₹ lakhs)	**₹ in lakhs**
Sales: Manufactured products	43,750	
Traded products	2,830	
Income from job works	780	
Sale of Defectives	130	
Exports incentives	85	47,575
Less: Excise Duty		2,840
Turnover		44,735