

**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. Choose the correct option among four alternative answer. (1 mark for correct choice, 1 mark for justification.) [10\*2=20 marks]
- (i) In Cost Audit Report, auditor's observations and suggestions are given in:  
(A) Part A of the Annexure to Cost Audit Report  
(B) Part B of the Annexure to Cost Audit Report  
(C) Part C of the Annexure to Cost Audit Report  
(D) Form of the Cost Audit Report.
- (ii) Company has to upload Cost Audit Report electronically to the MCA through  
(A) Form CRA -1  
(B) Form CRA-2  
(C) Form CRA-3  
(D)Form CRA-4
- (iii) Financial Position and Ratio Analysis information in Annexure to Cost Audit Report to be provided for:  
(A) Current Year and Previous Year  
(B) Current Year and Previous 2 Years  
(C) Current Year and Previous 3 years  
(D) Current year only.
- (iv) CAS 13 deals with:  
(A) Pollution Control cost  
(B) Cost of Service Cost centre  
(C)Cost of Utilities  
(D)Direct Expenses.
- (v) CAS 5 deals with  
(A) Cost of production for captive consumption  
(B) Production and Operation Overheads  
(C)Average (Equalised Cost of Transportation)  
(D) Pollution Control Cost.
- (vi) The following is not professional misconduct as per The Second Schedule Part I of the Cost and Works Accountants Act, 1959  
(A) 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;  
(B) 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;  
(C) contravenes any of the provisions of this Act or the regulations made there-under or any guidelines issued by the Council;  
(D) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

# MTP\_Final\_Syllabus-2016\_December2018\_Set -1

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(vii)XBRL technical term for a table

- (A) Hypercube
- (B) Imputed Value
- (C)Fact
- (D)Item.

(viii)Internal Auditing is:

- (A)One time activity
- (B)Two Time activity
- (C)Bi-annual activity
- (D) Continuous process.

(ix) T.G Rose developed the concept of:

- (A)Cost Audit
- (B)Internal Audit
- (C)Management Audit
- (D)Financial Audit

(x) Audit Working Papers are property of:

- (A)Government
- (B)Company
- (C)Auditor
- (D)Public

## Section - B [80 marks]

2. (a) (i) A company is engaged in manufacturing products on its own as well as purchase the same products from other companies. The outsourced products are treated as trading activity in the financial accounts. Some products are also manufactured by supply of materials to converters. What would be treatment of such products for the purposes of maintenance of cost accounting records and cost audit?
- (ii) In the abridged cost statement, what are Industry specific operating expenses? When should this be used?
- (b) Explain whether the following amounts to professional misconduct by a CMA:
- (i) P, a practicing CMA Q is a practicing Advocate representing matters in courts of law. 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. [8+8]
3. (a) How would you treat the following as per CAS-11 related to Administrative overheads?
- (i) Leased Assets;
  - (ii) Cost of Administrative Services procured from outside;
  - (iii) Cost of Software.
- (b) The profit as per Financial Accounts of JANARDHAN CEMENT LTD. for the year 2017-18 was ₹1,54,28,642.  
The profit as per Cost Accounting Records for the same period was less.

## MTP\_Final\_Syllabus-2016\_December2018\_Set -1

The following details are collected from the Financial Accounting Schedules and Cost Accounting records:

Particulars	Financial Accounts(₹)	Cost Accounts(₹)
Valuation of Stock :		
Opening: WIP	2562315	2265710
Finished Goods	26547520	29218950
Closing: WIP	4275640	3736346
Finished goods	37259430	43525149
Interest income from inter-corporate deposits	615340	
Donations given	485560	
Loss on Sale of Fixed Assets	122546	
Value of cement taken for own consumption	382960	365426
Cost of power drawn from own Wind Mill		
-At EB Tariff		4956325
-At cost	3620370	
Non opening income	4536770	
Voluntary retirement compensation	1676540	
Insurance claim relating to previous year received during the year	1435620	

You are required to Prepare a Reconciliation Statement and arrive at the Profit as per Cost Records. [6+10]

4. (a) What is meant by 'Social Responsibility Management'? Briefly list the different types of Pollution for which a manufacturing Company is responsible.
- (b) What do you understand by 'Corporate Image' and 'Branding'? Are they inter-related? What are the possible approaches to evaluate Corporate Image? [8+8]
5. (a) Mr . X, newly appointed CEO of ABC Ltd. engages you as a Management Auditor to give him a factual report , as to causes of demoralization of his staff .
- (b) (i) State which one of the following companies is required to appoint Internal Auditor as per the Companies Act, 2013, and the Rules made thereunder:

Figures are in ₹ crore and correspond to the previous year.

Name	Nature	Equity Capital	Turnover	Loan from Bank/PFI	Public Deposit
LMN Ltd.	LISTED	100	190	50	24
PQR Ltd.	UNLISTED PUBLIC	60	190	50	24
XYZ Ltd.	UNLISTED PRIVATE	60	190	50	-

- (ii) Can the Chief Cost Accounts Officer of the company be given additional charge as Internal Auditor? [8+8]
6. (a) SRIZONI LTD. of Gandhi Nagar producing industrial alcohol generates Bio-gas from the waste wash of alcohol in its Bio-gas Plant. The said Bio-gas is used as a fuel in generating steam along with conventional fuel oil. The high pressure steam is first sent to the STEAM TURBINE and the exhaust steam is used in the process of manufacturing Alcohol.

The following details are extracted from the financial accounts and cost accounting records of SRIZONI LTD. for the year ended March 31, 2018:

## MTP\_Final\_Syllabus-2016\_December2018\_Set -1

	Boiler (₹)	Steam Turbine (₹)
Cost of water	10,48,000	—
Fuel oil	918,85,000	—
Bio-gas Plant Expenses	258,02,000	—
Stores and Chemicals	2,57,000	66,000
Salaries and Wages	29,58,000	7,33,000
Repairs and Maintenance	65,64,000	2,58,000
Depreciation	17,25,000	6,50,000
Other Expenses	39,95,000	1,21,000
<b>High Pressure Steam generated</b>	<b>34950 MT</b>	
<b>Power generated</b>		<b>2550200 KWH</b>

Note: The fall in the enthalpic value of the steam is 10%

Required:

Prepare two separate cost sheets for steam and power as per the Companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2018.

(b) The following figures relate to usage of power for a product:

	2014 -15	2015-16	2016 -17
Total power consumed to KWH	2402474	2494872	2175677
Rate KWH ₹	2.29	2.12	1.90
Total production in million kgs.	337.73	333.084	300.865

Compute necessary productivity measures and compare the efficiency of power usage during the three years. [8+8]

7. (a) ABC Ltd. has received an enquiry for supply of 2,50,000 numbers of special type of auto components. The Company can execute the assignment provided a capital investment of ₹ 3,00,000 and working capital to the extent of 3 months' cost of sales are made available. The costs estimated are as follows:

Raw Materials - @ ₹ 3.25 per unit  
 Direct Labour Hours - 8,000  
 Labour Rate - ₹ 4.50 per hour  
 Factory Overheads - ₹ 4 per direct labour hour  
 Selling and Distribution expenses - ₹ 30,000

Borrowed funds will be available @11.5% on additional capital outlay. The Company expects a net Return of 25% on Sales. The Managing Director wants a Cost and Price statement, indicating the price which should be quoted to the customer.

(b) The following is a summary of the Profit and Loss Account of M/s. Straw Berry Company Limited for the year ended 31.03.2018 (₹ in lakh):

Sales		13,540
Cost of Sales: Raw Materials, Stores, Spares	5,600	
Excise Duty	830	
Salaries, Wages	1,400	
Power and Fuel	470	
Repairs: Major Breakdown	35	
Regular Maintenance	94	
Selling and Distribution Cost	1,040	
Insurance	56	
Rent, Rates and Taxes	97	
Printing, Stationery, etc.	437	

## MTP\_Final\_Syllabus-2016\_December2018\_Set -1

Travelling	776	
Other Administrative expenses	426	
Depreciation	391	
Interest	1,494	
Total expenses		13,146
Profit		394

There was a major breakdown of machinery, resulting in loss of production for 42 days in June and July, 2017 and there was a labour strike of 97 days from 14.02.2018 to 21.05.2018. The company produced a single product (Steel-Billet) and the production during the year was 9,42,000 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? [8+8]

8. Answer any 4 questions

[4×4=16 marks]

(a) How would you treat the following as per CAS-9 related to Packing Material Cost?

- (i) Primary and Secondary packing material cost.
- (ii) Self manufactured packing material.

(b) Audit of Commercial Accounts with respect to Government.

(c) Objectives of Operational Audit

(d) The following are the process wise wastages on inputs in the year

Process	%age of wastage on input
Blow Room	9.18
Carding	7.17
Drawing	1.1
Roving (Simplex)	0.3
Ring Frame (Shinning) Reeling and Winding	7.21 1.5

Calculate waste multiplier.

(e) ABC Stores is a departmental store, selling goods on retail basis. It makes a gross profit of 20% on net sales. The following figures for the year-end are available: Opening Stock ₹62,000, Purchases ₹4,46,000, Purchase Returns ₹12,500, Freight Inwards ₹15,000, Gross Sales ₹5,60,000, Sales Returns ₹14,000 and Carriage Outwards ₹8,000. Calculate the estimated cost of the Inventory on the closing date.