

Paper - 19 : Cost and Management Audit

Paper – 19 : Cost and Management Audit

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) The following is not a professional misconduct as per The First Schedule Part I of The Cost and Works Accountants Act, 1959
- (A) solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means:
 - (B) secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business:
 - (C) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute:
 - (D) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
- (ii) The Annexure to the Cost Audit Report should be signed by:
- (A) The CFO and the Managing Director
 - (B) One Director and Secretary
 - (C) The Secretary and the CFO
 - (D) The Officer –in –charge of Cost Accounts and the Secretary.
- (iii) Cost Auditor shall within 180 days from closure of Financial Year forward his duly signed report to:
- (A) Board of Directors
 - (B) Government
 - (C) Shareholders
 - (D) Audit Committee.
- (iv) The category of Companies specified in Rule 3 shall appoint Cost Auditor within :
- (A) 90 days of commencement of Financial Year
 - (B) 60 days of commencement of Financial Year
 - (C) 180 days of commencement of Financial Year
 - (D) 30 days of commencement of Financial Year
- (v) Capacity determination is dealt in :
- (A) CAS 3
 - (B) CAS 2
 - (C) CAS 4
 - (D) CAS 1
- (vi) CAS 10 deals with:
- (A) Direct Expenses
 - (B) Indirect Expenses
 - (C) Administrative overheads
 - (D) Selling and Distribution overheads.

- (vii)XBRL is a language based on :
- (A)XBL family of languages.
 - (B)XRL family of languages.
 - (C)XML family of languages
 - (D) XGL family of languages.
- (viii)Profit reconciliation for the company as a whole is dealt in :
- (A)Part D para 2 of the Annexure to Cost Audit Report.
 - (B) Part C para 1 of the Annexure to Cost Audit Report.
 - (C) Form of the Cost Audit Report.
 - (D) Part A para 1 of the Annexure to Cost Audit Report.
- (ix) The forex component of imported material is converted at the rate on:
- (A)Date of transaction
 - (B) Date of payment
 - (C)Date of advance
 - (D)Any of the above.
- (x) Outward Transportation cost shall form part of:
- (A)Cost of direct material
 - (B)Administrative overhead
 - (C) Cost of sale
 - (D)Cost of indirect material

Section – B [80 marks]

2. (a) (i) What types of Health Services are covered under the Companies (Cost Records and Audit) Rules 2014?
- (ii) Is there any obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees?
- (b) Explain whether the following amounts to professional misconduct by a CMA:
- (i) Mr. X, a CMA was invited by the Chamber of Commerce to present a paper in a symposium on the issues facing Indian Jute Industry. During the course of his presentation he shared some of the vital information of his client's business under the impression that it will help the Nation to compete with other countries at international level.
- (ii) A firm of Cost Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the company. [8+8]
3. (a) 'Research and Development Costs shall include all the costs that are directly traceable to research and/or development activities'.
- On what basis these costs can be assigned to Research and Development activities as per CAS-18?
- (b) The Cost Accountant of SOVANA SUGAR MILLS LTD. has arrived at a profit of ` 73,24,150 based on Cost Accounting records for the year ended March 31, 2018. As Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

MTP_Final_Syllabus-2016_December2018_Set -2

(i)	Decrease in value of Closing WIP and Finished goods inventory as per Financial Accounts	128,21,995
	as per Cost Accounts	131,04,220
(ii)	Profit on Sale of Fixed Assets	61,500
(iii)	Loss on Sale of Investments	11,200
(iv)	Voluntary Retirement Compensation included in Salary & Wages in F/A	16,75,000
(v)	Donation Paid	25,000
(vi)	Major Repairs & Maintenance written off in F/A (Amount reckoned in Cost Accounts of ` 6,08,420 for this job)	13,26,000
(vii)	Insurance Claim relating to previous year received during the year	14,29,000
(viii)	Profit from Retail trading activity	7,12,300
(ix)	Interest Income from Inter-Corporate Deposits	6,15,000

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Financial Accounts. [7+9]

4. (a) As a Management Auditor of a large organization, you have been asked to carry out the review of "MARKETING POLICIES: as a part of Corporate Development. Prepare a questionnaire for carrying out such a review.

(b) State briefly the adequacy of Budgetary Control System

- (i) in area of planning,
(ii) in the area of Co-ordination; and
(iii) in the area of Control

[10+6]

5. (a) Draft an internal control questionnaire for 'Account Receivables'.

(b) What is the objective of purchase management? What are the main points to be taken into account while preparing a set of questionnaire to evaluate purchase management function?

[9+7]

6. (a) MEGLOW 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 2014-15 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 Meglow 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.

- (b) PARTHAN CO. LTD. a single product manufacturing company has following four operations undergone by a product under Cost Audit.

MTP_Final_Syllabus-2016_December2018_Set -2

The Process wise Input, Output, Direct Employee Costs and Direct Material Costs for the year ended March 31, 2018 are given below:

Process	Input Unit	Output Unit	Direct employee cost of the process (₹)	Direct Material cost of the process (₹)
MP-1	312000	280800	8,42,400	11,23,200
MP-2	330000	297500	11,90,000	13,38,750
MP-3	414000	397500	19,87,500	16,89,375
MP-4	390000	361000	28,88,000	23,82,600

You are required to calculate:

- (i) Direct Employee Cost per unit of the product,
- (ii) Direct Material Cost per unit of the product, under reference as required in (PART-B, PARA-2) of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014. [8+8]

7. PHIMPEX LTD. in the business of Real Estate and Consumer Goods shows the following financial position for the year ending March 31, 2018:

(Amount in ` crore)

	Year ended 31 st March	
	2018	2017
Liabilities		
Share Capital	33	33
Securities Premium Account	931	928
General Reserve	57	44
Capital Redemption Reserve	42	40
Profit & Loss Account	595	390
Long Term Borrowings	1013	670
Deferred Tax Liability	25	39
Short Term Borrowing	782	676
Trade Payable	715	747
Miscl. Provisions	77	73
Total:	4270	3640
Assets:		
Fixed Assets (Tangible)	647	614
Capital WIP	667	383
Non-Current Investments	2378	2048
Long Term Loans	53	66
Inventories	167	232
Trade Receivables	104	94
Cash and Bank Balance	107	69
Other Current Assets	25	30
Advance for Equipment	122	104
Total:	4270	3640

Profit before tax for the year 2015-16 was `326 crores (Previous year `397 Crores)

You are required to compute the following figures/ratios as stipulated in PART-D, PART-4 to Annexure of Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended 31st March, 2016:

- (i) Capital Employed
- (ii) Net Worth
- (iii) Debt Equity Ratio
- (iv) PBT to Capital Employed
- (v) PBT to NET Worth
- (vi) Current Assets to Current Liabilities

(5+3+2+2+2+2)=16

MTP_Final_Syllabus-2016_December2018_Set -2

8. Answer any 4 questions

[4×4=16 marks]

(a) Answer the following questions with respect to CAS 23, Cost Accounting Standard on Overburden Removal Cost.

- (i) What do you understand by Standard Stripping ratio?
- (ii) How do you treat overburden removal cost attributable to a development phase of a mine area?

(b) Write short note on concurrent audit.

(c) Explain the basic differences between: "Management Audit" and "Operational Audit".

(d) TROMA LTD., a manufacturing unit, produces two products PB and PS. The following information is extracted from the Books of the Company for the year ended March 31, 2018:

Particulars	Product PB	Product PS
Units Produced (Qty.)	2,10,000	1,68,000
Units sold (Qty.)	1,68,000	1,36,500
Machine hours utilized	1,26,000	84,000
Design charges (₹)	1,57,500	1,89,000
Software development charges (₹)	2,62,500	3,78,000

- (i) Royalty paid on sales ₹6,09,000 [at ₹2 per unit sold for both the products].
- (ii) Royalty paid on units produced ₹3,78,000 [at ₹1 per unit produced for both the products].
- (iii) Hire charges of equipment used in the manufacturing process of product PB only ₹53,000.

Note: No adjustments are to be made related to units held i.e. Closing Stock.

You are required to compute the DIRECT EXPENSES—keeping in view of Cost Accounting Standard (CAS)-10.

(e) During the Energy Audit of Reliable Engineering Ltd., the following figures relating to usage of power were placed before the Auditor:

	2017-18	2016-17	2015-16
Total Power consumed (kWh)	2642720	2744360	2393250
Rate per kWh (₹)	6.29	5.42	4.90
Total Production (in million kg.)	422.16	416.36	376.08

Compute the necessary productivity measures and (i) Price Variance and (ii) Volume Variance of power usage during these years.