

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 answers. (1 mark for correct choice, 1 mark for justification wherever applicable & necessary) [10×2=20]

- A.** CAS 11 deals in:
- (a) Administrative Overheads;
 - (b) Factory Overheads;
 - (c) Selling and Distribution Overheads;
 - (d) Financial Costs.
- B.** Under Part D of the Annexure to the Cost Audit Report, information regarding Value Addition (for company as a whole) to be furnished for:
- (a) Previous year only;
 - (b) Current year and previous 2 years;
 - (c) Current year and previous year;
 - (d) Previous three years.
- C.** A Cost Auditor should 'qualify ' the Cost Audit Report where:
- (a) He is unable to form an opinion due to non availability of appropriate records/data;
 - (b) He finds that items in the cost statements are mistated;
 - (c) None of the above;
 - (d) Both of the above.
- D.** 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.
- E.** Part C of the annexure to Cost Audit Report provides Quantitative information related to:
- (a) Manufacturing Sector
 - (b) Service Sector
 - (c) None of the above
 - (d) Both of the above
- F.** The main emphasis of Management Audit is:
- (a) problem solving
 - (b) problem identification
 - (c) problem definition
 - (d) problem avoidance

MTP_Final_Syllabus 2016_Jun 2017_Set 1

- G.** Cost Auditing Standard 103 deals with:
- (a) Planning an Audit of Cost Statements
 - (b) Cost Audit Documentation
 - (c) Overall Objectives of the Independent Cost Auditor and Conduct of an Audit in Accordance with Cost Auditing Standards
 - (d) Knowledge of Business , Its processes and the Business Environment
- H.** Value addition is:
- (a) difference between gross sales and the cost of bought out materials and services.
 - (b) difference between net sales and the cost of bought out materials and services.
 - (c) Gross profit.
 - (d) Net profit.
- I.** Efficiency Audit ensures _____ return on Capital Employed.
- (a) optimum
 - (b) maximum
 - (c) minimum
 - (d) average
- J.** Item appearing only in Cost Records:
- (a) Profit on sale of Assets
 - (b) Interest received
 - (c) Loss on sale of Assets
 - (d) Notional interest on capital

Section – B

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

- 2. (a)** AMRIT LTD. a Sugar and Industrial Alcohol manufacturing company incorporated in May 2015 is having turnover ₹75 crores from all its activities during F.Y.2015-16. Discuss about the applicability of Cost Audit to the company? **[8]**
- 2. (b)** How the Cost Auditor is under obligation to report fraud identified during course of audit? **[8]**
- 3. (a)** As a part of management strategy SEASENA LTD. manufacturing soaps, purchased a popular soap brand "SUNFLOWER" from a smaller company. What will be treatment of such costs and the disclosure to be made in the Cost Statements as per relevant Cost Accounting Standard? **[8]**
- 3. (b)** 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:
- (i) The ₹10,00,000 after incurring and expenditure of ₹50,000.
 - (ii) Some old assets sold off at the end-end fetching a profit of ₹160,000
 - (iii) 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.
 - (iv) Interest was received amounting to ₹3,00,000 from outside investments.

MTP_Final_Syllabus 2016_Jun 2017_Set 1

(v) 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]

4. (a) XYZ Ltd. engaged in manufacturing of engineering goods is consistently recording higher sales turnover, but declining net profits since the last 5 years. As an management consultant appointed to find out the reasons for the same, what are the points you would verify? [8]

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

5. (a) As per Companies Act 2013 which companies are required to conduct Internal Audit? Who can be internal auditor as per the Act? [7]

5. (b) 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 audit programme for audit of receipt of participation fees from delegates to the conference. [9]

6. PHIMPEX LTD. in the business of Real Estate and Consumer Goods shows the following financial position for the year ending March31, 2016:

(Amount in ₹ crore)

	Year ended 31 st March	
	2016	2015
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

MTP_Final_Syllabus 2016_Jun 2017_Set 1

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]

7. (a) The particulars of a Supervisory employee of MAHAVINA LTD., a manufacturing company show the annual expenses as follows:

- i. Basic pay including Industrial D.A. ₹7,00,000
- ii. Lease rent paid for accommodation provided to the employee ₹2,40,000
- iii. Amount recovered from employee ₹60,000
- iv. Employer's contribution to P.F. ₹56,000
- v. Employee's contribution to P.F. ₹56,000
- vi. Reimbursement of medical expenses ₹67,000
- vii. Hospitalization expenses including Group Medical Insurance borne by the employer ₹19,000
- viii. Annual Bonus ₹30,000
- ix. Festival Advance ₹30,000
- x. The Employer manages P.F. through a Trust, and the shortfall in the return of the Trust Account compared to the notified rate is around 0.75% p.a. reimburse to the Trust.
- xi. The future benefit (Gratuity) to the employee is insured with L.I.C., the premium of which costs 4% p.a. approx.

Required:

Calculate the Employee Cost for the year ended March 31, 2016- keeping in view of Cost Accounting Standard (CAS)-7. **[8]**

MTP_Final_Syllabus 2016_Jun 2017_Set 1

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

The Processwise Input, Output, Direct Employee Costs and Direct Material Costs for the year ended March 31,2016 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. **[2+2+2+2=8]**

8. Answer any four questions: **[4×4=16]**

- (a) (i)** How is cost computed if service is provided by contractors as per CAS 13?
(ii) How would you treat future remediation or disposal costs under CAS 14 relating to Pollution Control Costs? **[2+2=4]**
- (b)** State the objectives of audit of Local Bodies? What are the items to be included in internal audit programme of local bodies? **[4]**
- (c)** Discuss the concept of 'evidence' in relation to Management Audit. **[4]**
- (d)** A chemical manufacturing unit uses ingredient 'Q' as the basic material. The cost of the material is ₹ 20 per kg and the Input-Output ratio is 120%. Due to a sudden shortage in the market the material becomes non-available and the unit is considering the use of one of the following substitutes available:

Materials	Input - Output Ratio	₹/ per Kg
B1	135%	26
B2	115%	30

You are required to recommend which of the above substitutes is to be used.

[4]

- (e)** Purchase of Materials ₹6,00,000 (inclusive of Trade Discount ₹6,000); Fee on Board ₹24,000; Import Duty paid ₹30,000; Freight inward ₹ 40,000; Insurance paid for import by sea ₹20,000; Rebates allowed ₹8,000; Cash discount ₹6,000; CENVAT Credit refundable ₹14,000; Subsidy received from the Government for importation of these materials ₹40,000. Compute the landed cost of material (i.e. value of receipt of material). **[4]**