

**PAPER – 19: COST AND MANAGEMENT AUDIT**

## PTP\_Final\_Syllabus 2012\_Dec2015\_Set 1

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL C</b>	KNOWLEDGE  What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION  What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
	APPLICATION  How you are expected to apply your knowledge	Illustrate	Use an example to describe or explain something
		Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
	ANALYSIS  How you are expected to analyse the detail of what you have learned	Solve	Find an answer to
		Tabulate	Arrange in a table
		Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
	SYNTHESIS  How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
		Discuss	Examine in detail by argument
	EVALUATION  How you are expected to use your learning to evaluate, make decisions or recommendations	Interpret	Translate into intelligible or familiar terms
Decide		To solve or conclude	
Advise		Counsel, inform or notify	
		Evaluate	Appraise or assess the value of
		Recommend	Propose a course of action

**Paper 19 - COST AND MANAGEMENT AUDIT**

**Time allowed-3hrs  
100**

**Full Marks:**

**Working Notes should form part of the answer.**

**—Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.**

**1. Answer the four Questions [15×4=60]**

**(a) (i)** What types of Educational Services are covered under the Companies (Cost Records and Audit) Rules 2014? **[6]**

**(ii)** What types of Health Services are covered under the Companies (Cost Records and Audit) Rules 2014? **[6]**

**(iii)** 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? **[3]**

**(b)(i)** A company is engaged in manufacturing of multiple products. Some of the products are covered under the Companies (Cost Records and Audit) Rules, 2014 and some are not. Part-A, Para 4 of the Annexure to the Cost Audit Report (Product/Service Details for the company as a whole) requires Net Operational Revenue to be reported for each CETA Heading for both the current year and the previous year. Can the Net Operational Revenue of all the Products that are not covered under the Rules be reported in this Para as a single line item? **[7]**

**(ii)** Many Companies have filed Form 23C as well as Form CRA-2 for 2014-15 in respect of different products and/or multiple cost auditors, if applicable. Which SRN Number has to be reported in the cost audit report while filing the same in XBRL Mode? **[4]**

**(iii)** What is the status of companies after the notification of Companies (Cost Records and Audit) Rules, 2014, who have not filed cost audit report and/or compliance report pertaining to any year prior to financial year commencing on or after April 1, 2014? **[4]**

**(c)(i)** The pipe company manufactures two products A and B during the first year of its operations. For purposes of product costing, an overhead rate of application of ₹1.70 per direct labour hour was used, based on budgetary factory overhead of ₹ 3,40,000 and budgeted direct labour hours of 2,00,000 as follows:

	Budgeted overhead	Budgeted Hours	Product A	Product B
Department 1	₹ 2,40,000	1,00,000	Dept I 4	4
Department 2	₹ <u>1,00,000</u>	<u>1,00,000</u>	Dept II <u>1</u>	<u>1</u>
	<u>3,40,000</u>	<u>2,00,000</u>	<u>5 hours</u>	<u>5 hours</u>

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At the end of the year, there was no work on process. There were, however, 2,000 and 6,000 finished units, respectively of products A and B on hand. Assume that budgeted activity was attained.

- (I) What was the effect on the company's income of using a plant wise overhead rate instead of departmental overhead rates?
- (II) Assume that material and labour costs per unit of product A were ₹10 and that the selling price was established by adding 40% to cover profit and selling and administrative expenses. What difference in selling price would result from the use of departmental against plant wise overhead rates?
- (III) Explain why departmental overhead rates were generally preferable to plant wise rates.

[2+2+2=6]

(ii) Discuss the treatment of idle time and overtime wages in cost records.

[3+3=6]

(iii) Mr. X purchased an asset costing ₹50,000, and a spare part costing ₹4,000. This spare part is specific to the asset purchased. Also given that the life of the equipment is 4 years, whereas the life of the spare part is 5 years. State the treatment of this spare part as per CAS-6.

[3]

(d) (i) While doing Cost Audit, the Cost Auditor should hold professional skepticism. Explain [6]

(ii) Explain the following as per Cost Auditing Standard 103 –

- (I) Inherent Risk;
- (II) Control risk &
- (III) Detection risk.

[3 x 3 = 9]

(e)(i) What are the duties of the Companies in relation to provisions of Section 148 of the Companies Act, 2013 and the Rules framed thereunder?

[5]

(ii) The following figures were extracted from the Trial Balance of a company as on 31st December 2014.

Particulars	Debit (₹)	Credit (₹)
<u>Inventories</u>		
Raw Material	1,40,00	
WIP	2,00,00	
FG	80,00	
Office Appliances	17,40	
Plant and Machinery	4,60,50	
Buildings	2,00,00	
Sales		7,68,000
Sales Returns	14,00	
Material purchased	3,20,00	
Freight on materials	16,00	
Purchase returns		4,800
Direct labour	1,60,00	
Indirect labour	18,00	
Factory supervision	10,00	

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Factory repairs & upkeep	14,00	
Heat, light & power	65,00	
Rates & taxes	6,30	
Misc factory expenses	18,70	
Sales commission	33,60	
Sales travelling	11,00	
Sales Promotion	22,500	
Distribution department salaries & wages	18,00	
Office salaries	8,60	
Interest on borrowed funds	2,00	

Further details are given as follows:

Closing inventories are Material ₹ 1,80,000, WIP ₹ 1,92,000 & FG ₹1,15,000.

Accrued expenses are Direct Labour ₹ 8,000, Indirect Labour ₹ 1,200 & interest ₹ 2,000.

Depreciation should be provided as 5% on Office Appliances, 10% on Machinery and 4% on Buildings.

Heat, light and power are to be distributed in the ratio of 8:1:1 among factory, office and distribution respectively.

Rates & taxes apply as 2/3rd to the factory and 1/3rd to office.

Depreciation on building to be distributed in the ratio of 8:1:1 among factory, office and distribution respectively

Prepare a Cost Sheet statement as per CAS 22 showing all important components. **[6]**

**(iii)** What is the procedure for appointment of cost auditor under the Companies Act, 2013? **[4]**

## **(2) Answer any two questions [10×2=20]**

**(a)(i)** What are the needs for Operational Audit? **[5]**

**(ii)** What are the features of a good Internal Control System? **[5]**

**(b)** Distinguish the following –

(i) Operational audit vs. Internal Audit;

(ii) Operational Audit vs. Financial Audit;

(iii) Operational Audit vs. Management Audit. **[4+3+3 = 10]**

**(c)** SP & Co., a cost audit firm, appointed as an internal auditor of the company XYZ LTD. for the audit of revenue for the financial year 2014-15. How would you verify the same if you, as a cost accountant, are responsible for conduct the audit of the same? **[10]**

**(3) Answer any two questions [10×2=20]**

**(a)** From the following information, ascertain the- amount of Capital Employed In the business:

	₹
Goodwill	2,20,000
Land & Building	3,00,000
Plant & Machinery	1,80,000
Furniture & Fixtures	90,000
10% Investment [Long Term]	80,000
Stock in Trade	72,000
Sundry Debtors	57,000
Cash at Bank	43,000
Cash in Hand	14,000
Bills Receivable	18,000
Prepaid Expenses	6,000
Sundry Creditors	47,000
Bills Payable	12,000
Outstanding Expenses	11,000
Bank Overdraft	30,000

**[10]**

**(b)** Following is the Balance Sheet of Hum Ltd. as on 31 March 2015:

Liabilities	₹	Assets	₹
Equity Share Capital	2,00,000	Goodwill	50,000
Preference Share Capital	1,00,000	Land & Building	2,00,000
Reserves & Surplus	1,50,000	Plant & Machinery	1,50,000
12% Mortgage Loan	80,000	Furniture & Fittings	30,000
10% Debentures	1,20,000	Investment [Long-term]	70,000
Sundry Creditors	85,000	Stock in Trade	80,000
Bills Payable	10,000	Short-term Investment	40,000
Bank Overdraft	75,000	Sundry Debtors	90,000
Pre received Incomes	5,000	Cash at Bank	40,000
Outstanding Expenses	25,000	Cash in Hand	25,000
		Bills Receivable	15,000
		Accrued Incomes	4,000
		Prepaid Expenses	6,000
		Discount on issue of Shares	20,000
		Preliminary Expenses	30,000
	8,50,000		8,50,000

Compute:

(a) Working Capital; (b) Proprietors' Fund; (c) Capital Employed; (d) Current Ratio; (e) Acid Test Ratio; (f) Proprietary Ratio; (g) Fixed Asset Proprietorship Ratio; (h) Debt-Equity Ratio; (i) Capital Gearing Ratio and (j) Fixed Asset Ratio. **[10]**

**(c)** Explain the Impact of IFRS on the Cost Structure, Cash Flows and Profitability. **[10]**