

**FINAL EXAMINATION**  
**Syllabus 2016**

**PAPER 19: COST AND MANAGEMENT AUDIT (CMAD)**

**Time Allowed: 3 Hours**

**Full Marks: 100**

**There are Sections A, B, C and D to be answered subject to instructions given against each.**

Section A					20 × 1 = 20 Marks
You are required to answer all the questions. Each question carries 1 mark. Instructions: Each question is followed by 4 Answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer.					
1.	a.	Costing is an important tool in _____ organizational performance in terms of shareholder and stakeholder value.			
		(i)	Determining		
		(ii)	Calculating		
		(iii)	Assessing	A	
		(iv)	None of these		
	b.	The Company has to upload the cost audit report electronically to the MCA through Form_____			
		(i)	CRA – 4	A	
		(ii)	CRA – 3		
		(iii)	CRA – 2		
		(iv)	CRA – 1		
	c.	Cost Audit represents the true and fair view of the _____ of any product.			
		(i)	Cost of sale		
		(ii)	Cost of raw material consumption.		
		(iii)	Cost of production	A	
		(iv)	None of these		
	d.	The applicability of maintenance cost records under Companies (Cost Records & Audit ) Rules, 2014 (as amended) for regulated industries having overall turnover of:			
		(i)	Rs. 25.00 crores		
		(ii)	Rs. 35 .00 crores	A	
		(iii)	Rs. 50.00 crores		
		(iv)	Rs. 100.00 crores		
	e.	The provisions related to maintenance of cost records were introduced in the year _____ by amendment to the Companies Act, 1956.			
		(i)	1960		
		(ii)	1965	A	
		(iii)	1966		
		(iv)	1970		
	f.	Companies Cost Records & Audit – Rules, 2014 is applicable from the financial year commencing on or after:			

	(i)	01.01.2014		
	(ii)	01.04.2014		
	(iii)	01.07.2014		
	(iv)	01.04.2015	A	
<b>g.</b>	The foreign exchange component of imported material is converted at the rate on _____.			
	(i)	Date of Payment		
	(ii)	Date of Delivery		
	(iii)	Date of Transaction	A	
	(iv)	Date of Use		
<b>h.</b>	The main objectives of management audit is to _____.			
	(i)	Suggest improvement in methods of operations	A	
	(ii)	Framing basic policies for the organisation		
	(iii)	Setting up an organizational framework		
	(iv)	None of these		
<b>i.</b>	Efficiency Audit ensures _____ return on Capital Employed.			
	(i)	Optimum	A	
	(ii)	Average		
	(iii)	Minimum		
	(iv)	Nil		
<b>j.</b>	The consumer service audit critically examines:			
	(i)	Outstanding payment of consumers		
	(ii)	Price consumers are ready to pay for particular product/service		
	(iii)	An appraise management of business enterprise of responsibility towards consumers	A	
	(iv)	Demand of a product by consumers		
<b>k.</b>	Qualities of good Internal Auditor are/is _____.			
	(i)	Right Attitude		
	(ii)	Technical Expertise		
	(iii)	Communication and other soft skills.		
	(iv)	All of the above.	A	
<b>l.</b>	Cost of Inventory does not include _____.			
	(i)	Costs of Purchase		
	(ii)	Costs of Conversion		
	(iii)	Other Direct Cost		
	(iv)	Administrative overheads that do not contribute to bringing inventories to their present location and condition	A	
<b>m.</b>	Which of the following is not an inherent limitation of internal control system?			
	(i)	Management override		
	(ii)	Collusion of employees		
	(iii)	Inefficiency of internal auditor	A	
	(iv)	Abuse of authority		
<b>n.</b>	A number of checks and controls exercised in a business to ensure its working are known as			

		_____.	
	(i)	Internal Control	A
	(ii)	Internal Check	
	(iii)	Internal Audit	
	(iv)	Interim Check	
	o. Management Audit is _____.		
	(i)	Compulsory for a company with paid up share capital of Rs. 25 Lakh and above	
	(ii)	Voluntary for a company	A
	(iii)	Necessary for a company	
	(iv)	Not Necessary for a company	
	p. Determine Operating ratio, if operating expenses is Rs. 60,000, Sales is Rs. 9,40,000, Sales Return is Rs 40,000 and Cost of net goods sold is Rs. 6,60,000.		
	(i)	11%	
	(ii)	15%	
	(iii)	25%	
	(iv)	80%	A
	q. The relationship between two financial variables can be expressed in:		
	(i)	Pure ratio	
	(ii)	Percentage	
	(iii)	Rate or time	
	(iv)	Either of the above	A
	r. Gross Sales Rs.6500 lacs, GST Rs.240 lacs, Increase in stock Rs.82 lacs, Cost of raw materials Rs.2250 lacs, Power Rs.1220 lacs, other overheads Rs. 215 lacs, Depreciation 250 lacs. What will be the value addition?		
	(i)	Rs.2897 l ac.	
	(ii)	Rs.2657 Lac	A
	(iii)	Rs.2407 Lac.	
	(iv)	Rs.2575 lac.	
	s. When current ratio is 2:1and if equal increase in current assets and current liabilities would result in _____.		
	(i)	No change in current ratio	
	(ii)	Increase in current ratio	
	(iii)	Decrease in current ratio	A
	(iv)	Current ratio will double	
	t. When prices show a rising trend, which one of the following methods of inventory valuation will result in lower income and lower valuation of inventory?		
	(i)	First in First Out (FIFO)	
	(ii)	Last In First Out (LIFO)	A
	(iii)	Simple Average Method	
	(iv)	Weighted Average method	

Section B		10 × 2 = 20 Marks
You are required to answer all the questions. Each question carries 2 marks.		
Instructions: Each question is followed by a space where you are required to type your answer.		
2.	a. 'Drugs and pharmaceuticals' belong to which sector for the purpose of Application of Cost Records?	
	Type your answer here <a href="#">Regulated sector</a>	
	b. Part C to the annexures to the Cost Audit Report relates to which sector?	
	Type your answer here <a href="#">Service sector</a>	
	c. As per CAS 2 Actual Capacity utilization shall be presented as a percentage of which capacity?	
	Type your answer here <a href="#">Installed capacity</a>	
	d. What is the main purpose of Performance Prism?	
	Type your answer here <a href="#">Total performance management</a>	
	e. What kind of investigation is Management audit ?	
	Type your answer here <a href="#">Non routine investigation</a>	
	f. What is the major component of Government Audit?	
	Type your answer here <a href="#">Government Expenditure</a>	
	g. Field Balance Sheet Approach to audit can be applied in which area?	
	Type your answer here <a href="#">Self-help Group</a>	
	h. What is the main function of Management Audit?	
	Type your answer here <a href="#">appraising</a>	
	i. Determine stock turnover ratio if, Opening stock is Rs. 31,000, Closing stock is Rs 29,000, Sales is Rs. 3,20,000 and Gross profit ratio is 25% on sales.	
	Type your answer here <a href="#">8 times</a> <b>ROUGH WORK</b> Inventory Turnover Ratio = Cost of goods sold/ Average Inventory Gross Profit Ratio = 25% on sales = Rs. 80,000 Cost of goods sold = Sales - Gross profit 3,20,000-80,000 = Rs. 240000 Average inventory = (31,000+29,000)/2 = 30,000 Inventory turnover Ratio = 2,40,000/30,000 = 8 times	
	j. A cotton textile mill had cumulative waste percentage of 5% in Blow Room, 6% in Carding, 4% in Drawing, 7% in Simplex and 8% in Ring Frame. For an input of 1000 kg. of cotton in blow room, what will be the output for the ring frame?	
	Type your answer here <a href="#">733.49 kg.</a> <b>ROUGH WORK</b> Output at Ring Frame = 1000 × (100-5)% × (100-6)% × (100-4)% × (100-7)% × (100-8)% = 1000 × 95% × 94% × 96% × 93% × 92% = 733.49 Kg	

Section C			4 × 12																										
You are required to answer any 4 out of 6 questions in this section			=48																										
Instructions: Each question is followed by a space where you are required to type your answer.			Marks																										
3.	a.	Explain in brief the fundamental principles to be observed by cost accountants.	5																										
		<p><b>Type your answer here:</b></p> <p>The fundamental principles to be observed by cost accountants are:</p> <p>i. Integrity</p> <p>A cost accountant should be straightforward and honest in performing his services.</p> <p>ii. Objectivity</p> <p>A cost accountant should be fair and should not allow prejudice or bias or the influence of others to override objectivity.</p> <p>iii. Competence</p> <p>A cost accountant must refrain from performing any service which he is not competent to carry out unless proper advice and assistance is obtained to ensure that the service is performed to the satisfaction.</p> <p>iv. Confidentiality</p> <p>A cost accountant must not disclose information acquired during the course of his engagement and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.</p> <p>v. Professional Behaviour</p> <p>A Cost Accountant should act in a manner consistent with the good reputation of the profession. In addition a Cost Accountant in practice, should be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.</p>																											
	b.	<p>The following particulars pertaining to product AA are extracted from the record of M/s. S Ltd. for the half year ended March 31, 2021.</p> <table><tr><td></td><td>Amount in Rs. Thousand</td></tr><tr><td>Direct Material Cost</td><td>900</td></tr><tr><td>Direct Wages and Salaries</td><td>250</td></tr><tr><td>Indirect Materials</td><td>85</td></tr><tr><td>Direct Expenses</td><td>150</td></tr><tr><td>Factory overheads</td><td>300</td></tr><tr><td>Administrative overheads</td><td>200</td></tr><tr><td>(20% relating to production activities)</td><td></td></tr><tr><td>Quality Control Cost</td><td>75</td></tr><tr><td>Research and Development Cost</td><td>100</td></tr><tr><td>Selling and Distribution Expenses</td><td>25</td></tr><tr><td>Sale of Scrap realised</td><td>40</td></tr><tr><td>Actual Profit Margin</td><td>10%</td></tr></table> <p>You are required to answer the following questions:</p>		Amount in Rs. Thousand	Direct Material Cost	900	Direct Wages and Salaries	250	Indirect Materials	85	Direct Expenses	150	Factory overheads	300	Administrative overheads	200	(20% relating to production activities)		Quality Control Cost	75	Research and Development Cost	100	Selling and Distribution Expenses	25	Sale of Scrap realised	40	Actual Profit Margin	10%	
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	(i)	Compute the of cost of production of M/s. S Ltd and state the Cost Accounting Standard applicable.	3+2																										

		<p><b>Type your answer here</b> Cost of Production = Rs.18,60,000 CAS 4 -Cost of Production is applicable <b>ROUGH WORK</b></p> <p style="text-align: center;">Computation of Cost of Production of M/s. S Ltd.</p> <table><tr><th>Particulars</th><th>Amount in Rs. Thousand</th></tr><tr><td>Direct materials</td><td>900</td></tr><tr><td>Direct wages &amp; salaries</td><td>250</td></tr><tr><td>Direct expenses</td><td>150</td></tr><tr><td>Factory overheads (300+85)</td><td>385</td></tr><tr><td>Quality control cost</td><td>75</td></tr><tr><td>Research and development cost</td><td>100</td></tr><tr><td>Administrative overheads (to the extent relates to Production activity)</td><td>40</td></tr><tr><td>Less: Sale of scrap realized</td><td>(40)</td></tr><tr><td></td><td></td></tr><tr><td>Cost of production</td><td>1860</td></tr></table>	Particulars	Amount in Rs. Thousand	Direct materials	900	Direct wages & salaries	250	Direct expenses	150	Factory overheads (300+85)	385	Quality control cost	75	Research and development cost	100	Administrative overheads (to the extent relates to Production activity)	40	Less: Sale of scrap realized	(40)			Cost of production	1860	
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	(ii)	How would you treat Production or Operation Overheads as per CAS 4 related to Cost of Production?	2																						
		<p><b>Type your answer here</b> Production or Operation Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts; taxes and duties refundable or to be credited as input tax credit. Production or Operation Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.</p>																							
4.	a.	<p>M/s. K Ltd. furnishes the following information in regard to the immediately preceding Financial Year: Turnover of Table A Products under Rule 3 is Rs. 7 crore Turnover of Table B Products under Rule 3 is Rs. 8 crore Turnover of other products is Rs. 24 crore Find out the applicability of:</p> <p>(i) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended). (ii) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended).</p>	2+2																						
		<p><b>Type your answer here</b> In this case the following position emerges:</p> <p>(i) Overall Turnover is Rs.39 crore i.e.&gt; = Rs. 35 crores. Therefore, Cost Records are required to be maintained for Table A and Table B Products irrespective of individual turnover of the products. (ii) Overall Turnover is Rs. 39 crore i.e.&lt;= Rs. 50 crore and aggregate Turnover of the Products under Rule 3 (Table A &amp; Table B products) is Rs. 15 Crore, which is less than the threshold limit of Rs. 25 crore. Since the Conditions of Rule 4(1) and 4(2) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are not fulfilled, hence Cost Audit is not applicable for products either under Table A or Table B.</p>																							
	b.	<p>Explain whether the following amounts to professional misconduct by a Cost Accountant:</p> <p>(i) Mr. A, a practicing CMA and Mr. B is a practicing Advocate representing matters in courts of law.</p>	4+4																						

		<p>Mr. A and Mr. B agree to help each other in matters involving their professional expertise. Accordingly, Mr. A recommends Mr. B in all tax litigations in courts of law. Mr. B consults Mr. A 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.</p> <p>(ii) Mr. Q, 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.</p>	
		<p><b>Type your answer here</b></p> <p>(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. A and B 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.</p> <p>(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. But, 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, CMA. Q is deemed to be guilty as it appears that he has certified the financial forecast without taking adequate safeguards.</p>	
5.	a.	Discuss the scope of Management Audit.	8
		<p><b>Type your answer here</b></p> <p>The scope of management audit extends over all the functions of an organisation viz. management, personnel, administration, material administration, marketing, finance, etc. wherever the effectiveness of management needs to be examined.</p> <p>The scope of Management Audit may include:</p> <ul style="list-style-type: none"> <li>(i) The suitability, practicability and present compliance or otherwise of the organization with its desired objectives and aims.</li> <li>(ii) The current image of the organization among customers, general public within its own particular industrial or commercial field.</li> <li>(iii) Efficient utilization of resources of the organization.</li> <li>(iv) The rate of return of investors' capital- whether poor, adequate or above average.</li> <li>(v) Relationship of the business with its own shareholders and investing public in general.</li> <li>(vi) Employee relationship</li> <li>(vii) The aims and effectiveness of management at its various levels such as top level, middle Level and operational level.</li> </ul>	

		(viii) Financial policies and control relating to production, sales and distribution and in other functions of the organization.	
	b.	Discuss the concept of evidence in relation to Management Audit.	4
		<p><b>Type your answer here</b></p> <p>In Management Audit, there are no fixed items of evidence that has to be checked by the management auditor on a routine basis. A management auditor has to rely more on his experience to identify the areas of review, particularly the areas of weakness to overcome, strengths to be exploited, and risks to be properly covered.</p> <p>The auditor's evidence comes through his discussions with concerned persons in the organizations' survey and review of various reports like internal audit reports, inspection reports, physical verification, monthly performance review statements, minutes and notes and above all personal observations.</p> <p>Evidence may be gathered through sampling techniques and on the basis of results drawn, going into details where required. It should be understood that a management auditor does not depend on voucher as evidence, but shall fall back on various records including voucher as evidence for his audited sample demand. The evidence should be such that an auditor can draw valid conclusions duly verifying the same with people concerned. There is no area of restrictions for obtaining evidence for a management auditor.</p>	
6.	a.	What are the limitations of Internal Control System?	6
		<p><b>Type your answer here</b></p> <p>The limitations of Internal Control are:</p> <ol style="list-style-type: none"> <li>1. Cost: management's consideration that a control be cost- effective;</li> <li>2. No control for unusual transaction: the fact that most controls do not tend to be directed at transactions of Unusual nature;</li> <li>3. Human Error: the potential for human error; These include the realities that human judgement in decision- making can be faulty and that breakdowns in internal control can occur because of human error. For example, there may be an error in the design of, or in the change to, a control.</li> <li>4. Collusion among employees: the possibility of circumvention of controls through collusion with parties outside the entity or with employees of entity; For example, management may enter into side agreements with customers that alter the terms and conditions of the entity's standard sales contracts, which may result in improper revenue recognition.</li> <li>5. Abuse of authority: the possibility that a person responsible for exercising control could abuse that authority, for example, a member of management overriding a control;</li> <li>6. Inadequate procedure: The possibility that procedures may become inadequate due to changes in Conditions and compliance with procedures may deteriorate;</li> <li>7. Manipulations by management: with respect to transactions or estimates and judgments required in the preparation of financial statements.</li> </ol>	
	b.	What are the advantages of Audit Programme?	6
		<p><b>Type your answer here</b></p> <p>An audit programme is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and the estimated time required. To be more comprehensive, an audit programme is written plan containing exact details with regard to the conduct of a particular audit. It is a description or memorandum of the work to be done during an audit. Audit programme serves as a guide in arranging and distributing the audit work as well as checking against the possibility of the omissions.</p>	



		<p>The main advantages of an audit programme are as follows:</p> <ul style="list-style-type: none"> <li>(i) It serves as a ready check list of audit procedures to be performed.</li> <li>(ii) The audit work can be properly allocated to the audit assistants or the article clerks.</li> <li>(iii) The auditor may easily know the extent of work done at any point of time. Thus, the progress of work done can be under the supervision and control of the auditor.</li> <li>(iv) Audit programme would not only be useful for the audit assistants in carrying the audit work but for the principal too as he would be in a position to account for the individual responsibilities.</li> <li>(v) A uniformity of the work can be attained as the same programme would be followed from time to time. It is a useful basis for planning the programme for the following year.</li> <li>(vi) It may be used as evidence by the auditor in the event when any charge is brought against him. He can prove that there has no negligence on his part and he exercised reasonable care and skill while performing the task.</li> </ul>																																																									
7.	a.	<p>During the Energy Audit of PG Engineering Ltd., the following figures relating to usage of power were placed before the Auditor:</p> <table border="1"> <thead> <tr> <th>Particulars</th><th>2021-22</th><th>2020-21</th><th>2019-20</th></tr> </thead> <tbody> <tr> <td>Total Power consumed (kWh)</td><td>2642720</td><td>2744360</td><td>2393250</td></tr> <tr> <td>Rate per kWh (Rs.)</td><td>6.29</td><td>5.42</td><td>4.90</td></tr> <tr> <td>Total Production (in million kg.)</td><td>422.16</td><td>416.36</td><td>376.08</td></tr> </tbody> </table> <p>You are required to answer the following questions:</p>	Particulars	2021-22	2020-21	2019-20	Total Power consumed (kWh)	2642720	2744360	2393250	Rate per kWh (Rs.)	6.29	5.42	4.90	Total Production (in million kg.)	422.16	416.36	376.08																																									
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	(i)	Compute the Price Variance for 2020-21 and 2021-22.	4																																																								
		<p><b>Type your answer here</b>            Price Variance for 2020-21 = Rs. 14,27,067            Price Variance for 2021-22 = Rs 22,99,166</p>																																																									
	(ii)	Compute the Volume Variance for 2020-21 and 2021-22.	4																																																								
		<p><b>Type your answer here</b>            Volume Variance for 2020-21 = Rs. 14,39,003            Volume Variance for 2021-22 = Rs. 2,28,375</p>																																																									
		<p><b>ROUGH WORK</b>            The power usage of PG Engineering Ltd. is given below along with the productivity measures and Price Variance and Volume Variance.</p> <table border="1"> <thead> <tr> <th>Particulars</th><th>2021-22</th><th>2020-21</th><th>2019-20</th></tr> </thead> <tbody> <tr> <td>1. Power consumed (KWh)</td><td>26,42,720</td><td>27,44,360</td><td>23,93,250</td></tr> <tr> <td>2. Production (in million kg.)</td><td>422.16</td><td>416.36</td><td>376.08</td></tr> <tr> <td>3. Rate per KWh (Rs.)</td><td>6.29</td><td>5.42</td><td>4.90</td></tr> <tr> <td>4. Power Cost (Rs.) [1 x 3]</td><td>1,66,22,709</td><td>1,48,74,431</td><td>1,17,26,925</td></tr> <tr> <td>5. Power Cost/'000 kg. (Rs.)</td><td>39.375</td><td>35.725</td><td>31.182</td></tr> <tr> <td>6. Price Variance (Rs.)</td><td>22,99,166</td><td>14,27,067</td><td></td></tr> <tr> <td>7. Volume Variance (Rs.)</td><td>2,28,375</td><td>14,39,003</td><td></td></tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Variances</th><th>Particulars</th><th>2021-22</th><th>2020-21</th></tr> </thead> <tbody> <tr> <td>Price Variance</td><td></td><td></td><td></td></tr> <tr> <td></td><td>26,42,720 x (6.29 – 5.42)</td><td>22,99,166</td><td></td></tr> <tr> <td></td><td>27,44,360 x (5.42 – 4.90)</td><td></td><td>14,27,067</td></tr> <tr> <td>Volume Variance</td><td></td><td></td><td></td></tr> <tr> <td></td><td>39.375 x (422.16 – 416.36)x1000 kgs.</td><td>2,28,375</td><td></td></tr> </tbody> </table>	Particulars	2021-22	2020-21	2019-20	1. Power consumed (KWh)	26,42,720	27,44,360	23,93,250	2. Production (in million kg.)	422.16	416.36	376.08	3. Rate per KWh (Rs.)	6.29	5.42	4.90	4. Power Cost (Rs.) [1 x 3]	1,66,22,709	1,48,74,431	1,17,26,925	5. Power Cost/'000 kg. (Rs.)	39.375	35.725	31.182	6. Price Variance (Rs.)	22,99,166	14,27,067		7. Volume Variance (Rs.)	2,28,375	14,39,003		Variances	Particulars	2021-22	2020-21	Price Variance					26,42,720 x (6.29 – 5.42)	22,99,166			27,44,360 x (5.42 – 4.90)		14,27,067	Volume Variance					39.375 x (422.16 – 416.36)x1000 kgs.	2,28,375		
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7. Volume Variance (Rs.)	2,28,375	14,39,003																																																									
Variances	Particulars	2021-22	2020-21																																																								
Price Variance																																																											
	26,42,720 x (6.29 – 5.42)	22,99,166																																																									
	27,44,360 x (5.42 – 4.90)		14,27,067																																																								
Volume Variance																																																											
	39.375 x (422.16 – 416.36)x1000 kgs.	2,28,375																																																									

		35.725 x (416.36 – 376.08) x 1000 kgs.	14,39,003	
		Million kg = 10,00,000 kg 422.16 in million = 42,21,60,000 kg 1000 kg. = 4,22,160 units For 2021-22, Power Cost/ '000 kg = Rs. 1,66,22,709 /4,22,160 = Rs.39.375 and For 2020-21, Power Cost/ '000 kg = Rs. 1,48,74,431 /4,16,360 = Rs. 35.725		
	b.	Discuss Continuous Audit and Final Audit		2+2
		<b>Type your answer here</b> Continuous audit involves the detailed examination of all the transactions by the auditor continuously throughout the year or at regular intervals, say fortnightly or monthly. A continuous audit is one which is commenced and carried on before the close of the financial year to which it relates. It involves the constant engagement of auditor's staff at the client office throughout the period under review. Continuous audit is suitable in cases where the final accounts are desired to be presented soon after the close of the financial year or there is great volume of transactions or the system of internal check is weak. A final audit is also called as Completed Audit or Periodical Audit. Final audit is done after the close of the financial year, i.e. after the books of accounts have been closed and the final accounts are drawn up. In this type of audit, the client gives the possession of books of accounts to the auditor for audit and routine checking and other audit procedures begin only there after.		
8.		<b>You are required to write Short Notes on any 4 out of 5 questions.</b>		<b>4 X 3 = 12 marks</b>
	a.	Any 5 disqualifications relating to appointment of Cost Auditor		
		<b>Type your answer here</b> (a) A body corporate (b) An officer or employee of the company. (c) A person who is a partner, or who is in the employment, of an officer or employee of the company. (d) A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding Rs. 5 lakhs. (e) A person or a firm who, whether directly or indirectly, has business relationship with the company, its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company.		
	b.	Standard stripping ratio		
		<b>Type your answer here</b> Standard stripping ratio is the ratio between the total quantity of overburden to be removed (in cubic meters) and the total mineral to be extracted (in tonnes) during the Projected life of the project. The term Standard stripping ratio and Average stripping ratio denote the same meaning and are used interchangeably. The Ratio shall be reviewed periodically, at least every five years, to take into account changes in geological factors such as actual behaviour of the soil and the Ore body. The ratio shall be reviewed immediately if the geological factors alter radically, for example due to earthquake. The reported quantity of Overburden is considered in cost statement where the variance between the reported quantity and the measured quantity is within the permissible limits. Reported quantity is the quantity of overburden that is necessary corresponding to actual quantity of mineral raised.		

		For example, 3:1 stripping ratio means that mining one Ton of ore will require mining three cubic meters of waste rock (overburden).	
	c.	Customer Costing in Service Sector	
		<p><b>Type your answer here</b></p> <p>For customer costing purpose, the costs are divided into following categories. These are:</p> <ul style="list-style-type: none"> <li>• Customer specific costs-Like the cost of express conveyor to a client/customer who requests oversight delivery of some important document.</li> <li>• Customer line categories- These are the costs which are broken into the broad categories of customers and not individual customers.</li> <li>• Company costs- Those costs which are not allocated to either customer line or individual customers but charge to company. The example is the cost of advertisement to promote sale of service.</li> </ul>	
	d.	Self-Help Group.	
		<p><b>Type your answer here</b></p> <p>Self Help Group (SHG) Movement in India has been recognized as an effective strategy for mobilization and empowerment of rural people, particularly poor women and other marginalized groups. In India, Self Help Groups or SHGs represent a unique approach to financial intermediation. The approach combines access to low-cost financial services involving a process of self-management, with an objective of social and economic development for the women SHG members. Formations of SHGs are facilitated by the Government or by NGOs. SHGs are linked not only to banks but also to wider development programmes, SHGs are seen to confer many benefits, both economic and social.</p> <p>As expert accounting professionals are hardly available at Gram Panchayat level, the need of the hour is "Community Audit" and it is necessary to develop sufficient number of "Community Auditors" for the sake of financial transparency.</p> <p>The Institute &amp; WBSRLM have entered into a MOU to enable undertaking of various collaborative activities for establishing "Community Audit" system for Self Help Groups in West Bengal by developing sufficient number of quality "Community Auditors" for meeting the audit needs of SHGs in the state.</p>	
	e.	Structure of Internal Control	
		<p><b>Type your answer here</b></p> <p>There is no uniform or identical structure of internal control in all the organizations. It often varies in concept and applications, having regard to the following factors:</p> <p>(a) Type of business;</p> <p>(b) Magnitude of the business;</p> <p>(c) Infrastructure available in the organization;</p> <p>(d) Potentiality of the human resources and their outlook.</p>	
<b>Section D</b> <b>You are required to answer all the questions in this section</b> <b>Instructions: Each question is followed by a space where you are required to type your answer.</b>			<b>1 x 12</b> <b>= 12</b> <b>Marks</b>
9.		<p>ABC Ltd. is a pioneer in manufacturing of electrical goods. The management of company has decided to upscale the operation and realign their focus area so they have asked finance department to provide their financial records and cost department to provide their cost records for in depth analysis of the performance of company in respective area.</p> <p>Mr. A, the head of finance department and Mr. C, the head of cost accounting department reveal</p>	

the following data for the year 2020-21 closing on 31<sup>st</sup> March 2021.

Particulars	Rs.
Opening Stock: Finished Stock 875 units	74,375
Opening WIP : Work in Progress	32,000
Sales 14500 units	20,80,000
Raw material	7,80,000
Direct Labour	4,50,000
Factory Overheads	3,00,000
Administrative Overheads	2,95,000
Selling & distribution overheads	61,000
Bad debts	12,000
Interest received	45,000
Rent received	18,000
Closing Stock: Finished Stock 375 units	41,250
Closing Stock : WIP	38,667
Dividend paid	85,000

Cost Records provide as under:

- (i) Factory Overhead is absorbed at 60% of direct wages
- (ii) Administrative Overhead are recovered at 20% of factory cost
- (iii) Selling & distribution Overhead are charged at Rs. 4 per unit sold
- (iv) Opening Stock of finished good is valued at Rs. 104 per unit
- (v) Work in progress is valued at factory cost both for financial records and costing records

a. The management wants to know the net profit as per financial records.

3

**Type your answer here**

Net Profit = Rs.1,33,542

**ROUGH WORK**

Statement of Profit & Loss A/c as per financial record on 31<sup>st</sup> March 2021

	(Rs.)		(Rs.)
To Opening Stock A/c	74,375	By Sales A/c	20,80,000
To Work in Progress A/c	32,000	By Closing Stock A/c	41,250
To Raw Material Consumed A/c	7,80,000	By WIP	38,667
To Direct Labour A/c	4,50,000	By Rent received A/c	18,000
To Factory OH A/c	3,00,000	By Interest received A/c	45,000
To Administrative OH A/c	2,95,000		
To Selling & distribution OH A/c	61,000		
To dividend paid A/c	85,000		
To Bad debt A/c	12,000		
To Net Profit	1,33,542		
	22,22,917		22,22,917

b. What will be the factory cost of the goods produced?

3

**Type your answer here**

Factory cost of the goods produced= Rs. 14,93,333

c.	What will be the per unit cost of production ?	3																																							
	<p><b>Type your answer here</b> Cost of production per unit = Rs.128 <b>ROUGH WORK</b></p> <table><tr><th>Particulars</th><th>Rs.</th></tr><tr><td>Sales (Units)</td><td>14,500</td></tr><tr><td>Add: Closing Stock</td><td>375</td></tr><tr><td></td><td></td></tr><tr><td>Less: Opening Stock</td><td>(875)</td></tr><tr><td>Unit produced</td><td>14,000</td></tr><tr><td></td><td></td></tr><tr><td></td><td>(Rs.)</td></tr><tr><td>Raw Material</td><td>7,80,000</td></tr><tr><td>Direct Labour</td><td>4,50,000</td></tr><tr><td>Prime Cost</td><td>12,30,000</td></tr><tr><td>Factory OH - 60% of direct wages</td><td>2,70,000</td></tr><tr><td>Factory Cost</td><td>15,00,000</td></tr><tr><td>Add: Opening WIP</td><td>32,000</td></tr><tr><td>Less: Closing WIP</td><td>(38,667)</td></tr><tr><td>Factory Cost of goods produced</td><td>14,93,333</td></tr><tr><td>Add: Administrative OH 20% of factory Cost</td><td>2,98,667</td></tr><tr><td>Cost of Production of 14000 units</td><td>17,92,000</td></tr><tr><td>Cost of production per unit (Rs. 17,92,000 ÷ 14000 units)</td><td>128</td></tr></table>	Particulars	Rs.	Sales (Units)	14,500	Add: Closing Stock	375			Less: Opening Stock	(875)	Unit produced	14,000				(Rs.)	Raw Material	7,80,000	Direct Labour	4,50,000	Prime Cost	12,30,000	Factory OH - 60% of direct wages	2,70,000	Factory Cost	15,00,000	Add: Opening WIP	32,000	Less: Closing WIP	(38,667)	Factory Cost of goods produced	14,93,333	Add: Administrative OH 20% of factory Cost	2,98,667	Cost of Production of 14000 units	17,92,000	Cost of production per unit (Rs. 17,92,000 ÷ 14000 units)	128		
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d.	The management wants to know the Net Profit as per Cost Accounting Records. You are required to calculate the net profit.	3																																							
	<p><b>Type your answer here</b> Net Profit = Rs.1,87,000 <b>ROUGH WORK</b></p> <p>Profit as per Cost Accounting Records</p> <table><tr><th>Particulars</th><th>(Rs.)</th></tr><tr><td>A - Sales Revenue – 14,500 units</td><td>20,80,000</td></tr><tr><td>B - Cost of Sales:</td><td></td></tr><tr><td>    Opening Stock 875 units @ Rs. 104</td><td>91,000</td></tr><tr><td>    Add: Cost of production</td><td>17,92,000</td></tr><tr><td>    Less: Closing Stock – 375 units × Rs. 128</td><td>(48,000)</td></tr><tr><td>    Cost of goods produced</td><td>18,35,000</td></tr><tr><td>    Add: Selling &amp; distribution OH: 14,500 units × Rs. 4</td><td>58,000</td></tr><tr><td>    Cost of Sales</td><td>18,93,000</td></tr><tr><td>Profit (A – B)</td><td>1,87,000</td></tr></table>	Particulars	(Rs.)	A - Sales Revenue – 14,500 units	20,80,000	B - Cost of Sales:		Opening Stock 875 units @ Rs. 104	91,000	Add: Cost of production	17,92,000	Less: Closing Stock – 375 units × Rs. 128	(48,000)	Cost of goods produced	18,35,000	Add: Selling & distribution OH: 14,500 units × Rs. 4	58,000	Cost of Sales	18,93,000	Profit (A – B)	1,87,000																				
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END